COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA

Independent Auditors' Report
Basic Financial Statements, Notes to
Basic Financial Statements
and Required Supplemental Schedule

Year Ended June 30, 2011

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
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MUNICIPALITY OF CEIBA
COMMONWEALTH OF PUERTO RICO
JUNE 30, 2011

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JUNE 30, 2011

ORR&Co.
Ortiz, Rivera, Rivera & Co.
Certified Public Accountants and Business Advisors

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ceiba, as of and for the year ended June 30, 2011, 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 audit.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ceiba as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 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, 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 on pages 3 through 16, and the Budgetary Comparison Schedule on page 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

San Juan, Puerto Rico
November 7, 2011

Ortiz, Rivera, Rivera & Co

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Management's Discussion and Analysis
June 30, 2011

As management of the Municipality of Ceiba (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets amounted to $27,392,739 at June 30, 2011, of which $16,523,406 consist of capital assets (net of accumulated depreciation and amortization of $4,334,399), $8,208,725 consist of cash and cash equivalents (of which $7,474,290 are restricted for specific purposes), and $2,660,608 consist of accounts receivable, net of the reserve for doubtful accounts.

- The Municipality's liabilities amounted to $8,358,285 at June 30, 2011, of which $4,492,930 consist of bonds and notes payable, $1,660,624 consist of accounts payable and accrued liabilities, and $1,265,734 consist of accrued compensated absences.

- The Municipality's assets exceeded its liabilities (net assets/surplus) by $19,034,454 at June 30, 2011.

- The Municipality's revenues amounted to $16,418,069 for the fiscal year ended June 30, 2011, of which $7,910,576 arose from taxes, $8,318,889 arose from intergovernmental grants and contributions, $108,290 arose from miscellaneous revenue streams and $80,314 arose from charges from services and miscellaneous revenues.

- The Municipality's expenses amounted to $9,783,121 for the fiscal year ended June 30, 2011, of which $6,768,391 where incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education. In addition, the Municipality incurred $180,050 of its total expenses, in interests related to its long-term obligations, and $2,834,681 in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation in the amount of $809,947 for the fiscal year ended June 30, 2011.

- The Municipality's net assets increased by $6,860,283 during the fiscal year ended June 30, 2011.

Governmental Funds' Highlights:

- The total fund balance of governmental funds amounted to $7,629,026 at June 30, 2011, of which $7,061,885 is either assigned or restricted, while $567,141 represents an unrestricted.

- The total fund balances of governmental funds increased by $3,764,235 during the fiscal year ended June 30, 2011.

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 Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2011. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying 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). This report also contains additional required and other supplementary information 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 are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). 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 private-sector business. These 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, 2011. The GWFS are prepared using methods that are similar to those used by most private businesses.

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, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, 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, 2011, 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.

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). All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Governmental Fund Financial Statements

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds and (2) the 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 Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-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.

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.

GFFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

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 of time, 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. 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 Municipality has four major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The three major governmental funds are: (1) general fund, (2) debt service fund, and (3) housing and urban development special funds.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and GFFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of: (1) budgetary comparison schedule – general fund.

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FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position and operations for the prior and the current fiscal year are summarized as follows, based on the information included in the accompanying GWFS:

Comparative Statement of Net Assets
Governmental Activities (Condensed)
June 30, 2011 and 2010

	2011	2010
Assets:		
Current assets	$ 10,869,333	$ 8,153,320
Non-current assets:		
Capital assets, net	16,523,406	12,824,209
Total assets	27,392,739	20,977,529
Liabilities:		
Current liabilities	2,599,621	4,021,579
Long-term obligations due within one year	690,972	386,909
Long-term obligations due after one year	5,067,692	4,394,870
Total liabilities	8,358,285	8,803,358
Net assets:		
Invested in capital assets, net of related debt	14,809,374	11,357,931
Restricted for debt service and others	4,369,980	2,413,352
Unrestricted	(144,900)	(1,597,112)
Total net assets	$ 19,034,454	$ 12,174,171

At June 30, 2011, the Municipality's current assets, amounting to $10,869,333, are mainly composed of cash ($8,208,725), and accounts receivable ($2,660,608), net of reserve for doubtful accounts.

The restricted cash represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the operations of federally and state funded grant programs. Restricted cash also consists of unspent proceeds of bonds issued for acquisition, construction and improvement of major capital assets. Restricted property taxes receivable represent resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

The Municipality's non-current assets, amounting to $16,523,406 at June 30, 2011, are composed of capital assets, with a cost basis of $20,857,905, which are reported net of accumulated depreciation and amortization of $4,334,499.

At June 30, 2011, the Municipality's current liabilities amounting to $3,290,593, are mainly composed of accounts payable and accrued liabilities, unearned revenues, and the portions due within one year of bonds and notes payable, and compensated absences. Unearned revenues principally consist of unearned revenues associated with municipal license taxes.

The Municipality's non-current liabilities, amounting to $5,067,692 at June 30, 2011, are mainly composed of portions due after one year of bonds and noted payable and compensated absences.

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by $19,034,454 at June 30, 2011. The most significant portion of net assets ($14,809,374) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net assets ($2,348,060) at June 30, 2011, represents resources that are restricted for debt service payments.

The remaining component of total net assets consists of unrestricted net assets amounting to $144,900 at June 30, 2011. These unrestricted net assets are the consequence of previous budgets that provided sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net assets of the Municipality increased by $3,764,235 for the fiscal year ended June 30, 2011.

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

Comparative Statement of Activities
Governmental Activities (Condensed)
Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Program revenues:		
Program-specific operating grants and contributions	$ 3,256,931	$ 1,537,638
Program-specific capital grants and contributions	3,706,832	1,183,006
Charges for services	80,314	49,029
Total program revenues	7,044,077	2,769,673
General revenues:		
Property taxes	5,946,582	6,100,329
Municipal license taxes	853,532	225,165
Construction excise taxes	940,377	156,198
Sales and use taxes	283,429	1,605
Unrestricted grants and contributions	1,337,397	1,102,553
Other general revenues, including interests on deposits	238,010	96,619
Total general revenues	9,599,327	7,682,469
Total revenues	16,643,404	10,452,142
Program expenses:		
General government	2,834,680	3,155,968
Urban and economic development	2,903,478	2,183,510
Public safety	1,105,138	1,295,048
Health and sanitation	1,343,892	670,288
Culture, recreation and education	454,421	587,404
Public housing and welfare	961,462	855,706
Interest on long-term obligations	180,050	124,845
Total expenses	9,783,121	8,872,769
Net increase (decrease) in net assets	6,860,283	1,579,373
Net assets, at beginning of fiscal year	12,174,171	10,594,798
Prior-period adjustments	-	-
Net assets, at beginning of fiscal year	12,174,171	10,594,798
Net assets, at end of fiscal year	$ 19,034,454	$12,174,171

As previously mentioned, the Municipality's net assets increased by $6,860,283 during the current fiscal year. Approximately 49% of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes ($8,023,920). Grants, contributions and charges for services (program revenues), amounting to

$8,381,474, provided 51% of the total revenues for the current fiscal year. Miscellaneous revenues provided the remaining 1% of total revenues.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2011 were related to: (1) general administrating and operating costs ($2,834,681), which were classified as "general government", (2) public housing and welfare ($961,462), (3) health and sanitation ($1,343,892), (4) urban and economic development ($2,903,478), (5) public safety ($1,105,138), (6) culture, recreation and education ($454,421), and (7) interest on long-term obligations ($180,049). These expenses include depreciation and amortization of capital assets and deferred charges in the amounts of $809,947 for the fiscal year ended June 30, 2011.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

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 June 30, 2011, the total assets of governmental funds amounted to $11,240,911 which consisted principally of: (1) cash of $8,208,725 (2) accounts receivable, $2,660,608 net of reserve for doubtful accounts, and (3) inter-fund receivables of $371,578.

At June 30, 2011, the total liabilities of governmental funds amounted to $3,611,885, which consisted principally of: (1) accounts payable and accrued liabilities of $1,660,824 (2) deferred revenues of $1,094,869, (3) inter-fund payables ($371,578) and (4) matured bonds and interests due and payable of $484,614.

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The fund balances of governmental funds increased by $3,764,235 during the fiscal year ended June 30, 2011.

Condensed Balance Sheet - Governmental Funds
June 30, 2011 and 2010

	2011	2010
Assets:		
Total assets - major governmental funds	$ 10,602,993	$ 5,592,963
Total assets - other governmental funds	637,918	2,736,086
Combined total assets	11,240,911	8,329,049
Liabilities:		
Total liabilities - major governmental funds	3,178,344	3,410,888
Total liabilities - other governmental funds	433,541	1,053,370
Combined total liabilities	3,611,885	4,464,258
Fund balances:		
Assigned or restricted - major governmental funds	7,232,011	3,045,508
Assigned or restricted - other governmental funds	204,377	1,682,716
Unassigned – all governmental funds	192,638	(863,433)
Combined total fund balances	7,629,026	3,864,791
Total liabilities and fund balances	$ 11,240,911	$ 8,329,049

Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to $3,596,754 at June 30, 2011. Such assets consist principally of: (1) cash ($762,396), (2) property, municipal license, construction excise tax, and sales and use tax receivables ($1,301,776), and (3) short-term and long-term amounts due from other funds ($369,701).

The GF's total liabilities amounted to $1,814,676 at June 30, 2011. Such liabilities are composed mainly of: (1) intergovernmental payables ($1,104,606), (2) deferred revenues (520,068), and (3) accounts payable and accrued liabilities ($188,825).

At the end of the current fiscal year, unreserved fund balance of the GF amounted to $567,141, while total fund balance amounted to $1,782,078.

Debt service fund (DSF)- The DSF's total assets amounted to $2,832,733 at June 30, 2011, which consist mainly of restricted cash in fiscal agent ($2,772,470), restricted property taxes receivable, net of reserve for doubtful accounts ($7,124), and amounts due from other funds

($52,941). The DSF's total liabilities amounted to $484,673 at June 30, 2011, which are mainly composed of matured bonds due and payable of $423,900.

Public works partnership fund (PWPF)- The PWPF's total assets amounted to $416,086 at June 30, 2011, which consist mainly of restricted cash. The PWPF's total liabilities amounted to $416,086 at June 30, 2011, which are mainly composed of account payable and accrued liabilities ($67,216), deferred revenue ($158,749) and short-term and long-term amounts due to other funds ($190,121).

Capital improvement bond fund (CIBF) - The CIBF's total assets amounted to $1,476,968 at June 30, 2011, which consist mainly of restricted cash in fiscal agent. At the end of the current fiscal year, CIBF's total restricted fund balance reached $1,476,968.

Legislative joint resolutions fund (LJR)- The LJR's total assets amounted to $1,948,650 at June 30, 2011, which consist mainly of restricted cash in fiscal agent (1,947,950) and amount due from other funds ($700). The LJR's total liabilities amounted to $131,107 at June 30, 2011, which are mainly composed of accounts payable and accrued liabilities. At the end of the current fiscal year, LJR's total restricted fund balance reached $1,817,543.

Community development block grant fund (CDBG) - The CDBG's total assets amounted to $331,802 at June 30, 2011, which consist mainly composed of restricted cash in fiscal agent. The SBGP's total liabilities amounted to $331,802 at June 30, 2011, which are mainly composed of due to other funds ($159,814), deferred revenue (24,714) and account payable and accrued liabilities ($147,274). At the end of the current fiscal year, HUDBF's total fund balance reached $52,620.

Other governmental funds (OGF)- The OGF's total assets amounted to $637,918 at June 30, 2011, which consist mainly of restricted cash and cash equivalents ($635,657), receivables from other funds ($1,177) and intergovernmental grants and contribution ($1,084). The OGF's total liabilities amounted to $433,541 at June 30, 2011, which are mainly composed of deferred revenues ($391,338), accounts payable and accrued liabilities ($21,796) and short-term and long-term amounts due to other funds ($20,407). At the end of the current fiscal year, OGF's total restricted fund balance reached $204,377.

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Analysis of Operating Results of Governmental Funds

Condensed Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (condensed) Fiscal Years Ended June 30, 2011 and 2010

	2010	2009
Revenues:		
Total revenues - major governmental funds	$ 15,872,458	$ 9,120,761
Total revenues - other governmental funds	545,611	1,331,381
Combined total revenues	16,418,069	10,452,142
Expenditures:		
Total expenditures - major governmental funds	13,105,001	8,354,579
Total expenditures - other governmental funds	912,151	1,339,454
Combined total expenditures	14,017,152	9,694,033
Excess of expenditures over revenues	2,400,917	758,109
Other financing sources, net:		
Proceeds from issuance of bonds	1,363,318	675,000
Other financing uses, net - major governmental funds	83,844	34,946
Other financing sources, net – other governmental funds	(83,844)	(34,946)
Combined other financing sources (uses), net	1,363,318	675,000
Excess of revenues and other financing sources over expenditures and other financing uses	3,764,235	1,433,109
Fund balance, at beginning of fiscal year	3,864,791	2,431,682
Fund balances, at end of fiscal year	$ 7,629,026	$ 3,864,791

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Major Governmental Funds

General fund – The total fund balance of the GF increased by $1,244,811 during current fiscal year.

Approximately 87% ($7,293,762) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes, while ($1,225,406) resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 2011 were related to: (1) construction, rehabilitation and preservation of new or existing housing, ($1,823,001), which were classified as "urban and economic development, (2) health and sanitation ($749,023), (3) public safety ($973,294), (4) general administrating and operating costs ($2,572,423), (5) public housing and welfare ($540,165), (6) culture, recreation and education ($327,930), and (7) principal and interest on long-term obligations ($80,193).

Debt service fund (DSF) – The total fund balance of the DSF increased by $775,872 during current fiscal year. Approximately $616,814 of DSF's total revenues for the current fiscal year came from restricted property taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable ($560,560).

Public works partnership fund (PWPF) – PWPF's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to $1,388,769. PWPF's total expenditures for the current fiscal year were mainly related to capital outlays ($1,148,713) and urban and economic development ($240,056).

Capital improvements bond fund (CIBF) – The total fund balance of the CIBF is $562,795 during current fiscal year. CIBF's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to $62,860. CIBF's total expenditures for the current fiscal year were mainly related to capital outlays ($409,290).

Legislative joint resolutions fund (LJR) – The total fund balance of the LJR is $1,441,314 during current fiscal year. LJR's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to $2,120,001. LJR's total expenditures for the current fiscal year were mainly related to capital outlays ($466,562) and urban and economic development (212,125)

Community development block grant fund (CDBG) – CDBG's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to $2,227,236. CDBG's total expenditures for the current fiscal year came principally from capital outlays ($1,747,603) and urban and economic development ($479,633).

Other governmental funds (OGF) – The total fund balance of the OGF's decreased by $240,557 during current fiscal year. Substantially all of OGF's revenues for the current fiscal year came from intergovernmental grants and contributions of $542,265. Total expenditures were mainly related to capital outlays ($517,388), and public housing and welfare ($298,661).

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested $20,857,905 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of $4,334,499 at June 30, 2011. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions ($4,509,144), which were partially offset by the depreciation and amortization expense of $809,947.

b) Debt Administration

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2011, the Municipality's total bonded debt amounted to $3,614,900, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The Municipality has also certain outstanding notes payable. Such notes payable also decreased during the current fiscal year mainly due to the principal payments made during the same period.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, 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 requests for additional information should be addressed to: Municipality of Ceiba, Department of Finance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Statement of Net Assets
June 30, 2011

Assets

		Governmental activities
Current assets:		
Cash in commercial banks		$ 744,559
Account receivable, net of allowance for doubtful accounts:		
Taxes:		
Property taxes	$ 873,150	
Municipal license taxes	35,713	
Sales and use tax	16,225	
Construction excise taxes	376,688	
Intergovernmental grants and contributions	1,336,470	
Miscellaneous	15,238	
Total accounts receivable		2,653,484
Restricted assets:		
Cash in commercial banks	$ 3,144,685	
Cash in fiscal agent	4,319,481	
Property taxes receivable, net of allowance for doubtful accounts	7,124	
Total restricted assets		7,471,290
Total current assets		10,869,333
Non-current assets:		
Capital assets, at cost:		
Depreciable capital assets	$17,981,700	
Non-depreciable capital assets	2,876,205	
Total capital assets, at cost	20,857,905	
Less: accumulated depreciation and amortization	(4,334,499)	
Total capital assets, net of accumulated depreciation and amortization		16,523,406
Total non-current assets		16,523,406
Total assets		$ 27,392,739

The accompanying notes to the basic financial statements are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Statement of Net Assets (concluded)
June 30, 2011

		Governmental activities
Current liabilities (due within one year):		
Accounts payable and accrued liabilities	$ 556,018	
Intergovernmental payables	1,104,606	
Total accounts payable and accrued liabilities		$ 1,660,624
Unearned revenues		869,534
Liabilities related to restricted assets:		
Accrued interests on bonds payable		69,463
Current portion of long-term obligations:		
Bonds payable	$ 423,900	
Notes payable	33,398	
Compensated absences	233,674	
Total current portion of long-term obligations		690,972
Total current liabilities		3,290,593
Non-current liabilities, excluding current portion (due in more than one year) :		
Non-current portion of liabilities related to restricted assets - bonds payable		3,191,000
Notes payable		844,632
Compensated absences		1,032,060
Total non-current liabilities		5,067,692
Total liabilities		8,358,285
Net assets:		
Invested in capital assets, net of related debt		14,809,374
Restricted for:		
Debt service	$ 2,348,060	
Capital Project	134,440	
Federal and state funded programs	1,887,480	
Total restricted net assets		4,369,980
Unrestricted		(144,900)
Total net assets		$ 19,034,454

The accompanying notes to the basic financial statements are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Statement of Activities
Fiscal Year Ended June 30, 2011

		Program revenues			
Functions/programs	**Expenses, including depreciation expense of $809,947**	**Charges for services**	**Program – specific operating grants and contributions**	**Program – specific capital grants and contributions**	**Net revenues (expenses) and changes in net assets**
Governmental activities:					
General government	$ 2,834,681	$ 76,993	$ -	$ -	$ (2,757,688)
Urban and economic development	2,768,874	-	2,183,546	3,572,228	2,986,900
Health and sanitation	1,343,892	-	-	-	(1,343,892)
Public safety	1,105,138	-	1,543	-	(1,103,595)
Public housing and welfare	961,462	-	372,882	-	(588,580)
Culture, recreation and education	454,421	3,321	13,468	-	(437,632)
Interests on long-term obligations	180,049	-	685,492	-	505,443
Total governmental activities	$ 9,648,517	80,314	3,256,931	3,572,228	(2,739,044)
General revenues:					
Taxes:					
Property taxes					$ 5,946,582
Municipal license taxes					853,532
Construction excise taxes					940,377
Sales and use taxes					283,429
Total tax revenues					8,023,920
Intergovernmental grants and contributions, not restricted to specific programs					1,337,397
Interests on deposits					129,720
Miscellaneous					108,290
Total general revenues					9,599,327
Net increase in net assets					6,860,283
Net assets at beginning of fiscal year					12,174,171
Net assets at end of fiscal year					$ 19,034,454

The accompanying notes to the basic financial statements are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Balance Sheet – Governmental Funds
June 30, 2011

	Major governmental funds							
Assets	**General fund**	**Debt service fund**	**Public works partnership fund**	**Capital improvements bonds fund**	**Legislative joint resolutions fund**	**Community development block grant fund**	**Other governmental funds**	**Total governmental funds**
Cash in commercial banks	$ 744,559	$ -	$ -	$ -	$ -	$ -	$ -	$ 744,559
Account receivable, net of allowance								
for doubtful accounts:								
Taxes:								
Property taxes	873,150	-	-	-	-	-	-	873,150
Municipal license taxes	35,713	-	-	-	-	-	-	35,713
Construction excise taxes	376,688	-	-	-	-	-	-	376,688
Sales and use taxes	16,225	-	-	-	-	-	-	16,225
Intergovernmental grants and contributions	1,147,841	52,941	-	-	-	134,604	1,084	1,336,470
Due from other funds	369,701	-	-	-	700	-	1,177	371,578
Miscellaneous receivables	15,040	-	-	-	-	-	-	15,040
Accrued interests on deposits	-	198	-	-	-	-	-	198
Restricted assets:								
Cash in commercial banks	-	-	416,086	-	1,947,950	197,198	583,451	3,144,685
Cash in fiscal agent	17,837	2,772,470	-	1,476,968	-	-	52,206	4,319,481
Property taxes receivable, net of reserve								
for doubtful accounts	-	7,124	-	-	-	-	-	7,124
Total assets	$ 3,596,754	$ 2,832,733	$ 416,086	$ 1,476,968	$ 1,948,650	$ 331,802	$ 637,918	$ 11,240,911
Liabilities								
Accounts payable and accrued liabilities	$ 188,825	-	67,216	-	131,107	147,274	21,796	$ 556,218
Intergovernmental payables	1,104,606	-	-	-	-	-	-	1,104,606
Deferred revenues	520,068	-	158,749	-	-	24,714	391,338	1,094,869
Liabilities related to restricted assets:								
Due to other funds	1,177	59	190,121	-	-	159,814	20,407	371,578
Matured interests due and payable	-	60,714	-	-	-	-	-	60,714
Matured bonds due and payable	-	423,900	-	-	-	-	-	423,900
Total liabilities	1,814,676	484,673	416,086	-	131,107	331,802	433,541	3,611,885
Fund balances								
Reserved for:								
Assigned	1,214,937	-	-	-	-	-	-	1,214,937
Restricted	-	2,348,060	-	1,476,968	1,817,543	-	204,377	5,846,948
Unassigned	567,141	-	-	-	-	-	-	567,141
Total fund balances	1,782,078	2,348,060	-	1,476,968	1,817,543	-	204,377	7,629,026
Total liabilities and fund balances	$ 3,596,754	$ 2,832,733	$ 416,086	$ 1,476,968	$ 1,948,650	$ 331,802	$ 637,918	$ 11,240,911

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2011

	Major governmental funds							
	General fund	Debt service fund	Public works partnership fund	Capital improvements bonds fund	Legislative joint resolutions fund	Community development block grant fund	Other governmental funds	Total governmental funds
Revenues:								
Taxes:								
Property taxes	$ 5,329,768	616,814	-	-	-	-	-	$ 5,946,582
Municipal license taxes	853,532	-	-	-	-	-	-	853,532
Construction excise taxes	827,033	-	-	-	-	-	-	827,033
Sales and use taxes	283,429	-	-	-	-	-	-	283,429
Total tax revenues	7,293,762	616,814	-	-	-	-	-	7,910,576
Intergovernmental grants and contributions	1,225,406	685,492	1,388,769	-	2,120,001	2,227,236	542,265	8,189,169
Interests on deposit	64,662	2,173	-	62,860	-	-	25	129,720
Charges for services	76,993	-	-	-	-	-	3,321	80,314
Miscellaneous	108,290	-	-	-	-	-	-	108,290
Total revenues	8,769,113	1,304,479	1,388,769	62,860	2,120,001	2,227,236	545,611	16,418,069
Expenditures:								
Current:								
General government	2,572,423	-	-	139,621	-	-	-	2,712,044
Urban and economic development	1,823,001	-	240,056	5,931	212,125	479,633	20,096	2,780,842
Health and sanitation	749,023	-	-	409,290	-	-	62,943	1,221,256
Public safety	973,294	-	-	-	-	-	9,208	982,502
Public housing and welfare	540,165	-	-	-	-	-	298,661	838,826
Culture, recreation and education	327,930	-	-	-	-	-	3,855	331,785
Debt service:								
Principal	34,803	434,650	-	-	-	-	-	469,453
Interest	45,390	125,910	-	-	-	-	-	171,300
Capital outlays	501,515	-	1,148,713	127,363	466,562	1,747,603	517,388	4,509,144
Total expenditures	7,567,544	560,560	1,388,769	682,205	678,687	2,227,236	912,151	14,017,152
Revenues over (under) expenditures	1,201,569	743,919	-	(619,345)	1,441,314	-	(366,540)	2,400,917
Other financing sources (uses):								
Proceeds from issuance of bonds	-	-	-	1,245,000	-	-	118,318	1,363,318
Transfers from other funds	63,543	12,636	-	-	-	-	7,665	83,844
Transfers to other funds	(20,301)	(683)	-	(62,860)	-	-	-	(83,844)
Total other financing sources, net	43,242	11,953	-	1,182,140	-	-	125,983	1,363,318
Net increase (decrease) in fund balances	1,244,811	755,872	-	562,795	1,441,314	-	(240,557)	3,764,235
Fund balance at beginning of year	537,267	1,592,188	-	914,173	376,229	-	444,934	3,864,791
Fund balance at end of year	$ 1,782,078	2,348,060	-	1,476,968	1,817,543	-	204,377	$ 7,629,026

The accompanying notes to the basic financial statements are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Reconciliation of the Balance Sheet – Governmental Funds to Statement of Net Assets
June 30, 2011

The amounts of governmental activities reported in the statement of net assets and the balance sheet – governmental funds, are different for the following reasons:

Total fund balances reported in the balance sheet – governmental funds	$ 7,629,026
Add (Deduct):	
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of $4,334,499 at June 30, 2011.	16,523,406
Net change in deferred revenues of earned but unavailable revenues at June 30, 2011.	225,335
The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2011:	
Bonds payable	(3,191,000)
Notes payable	(878,030)
Compensated absences	(1,265,734)
Accrued interests and others, net	(8,549)
Net assets – governmental activities, as reported in the statement of net assets	$ 19,034,454

The accompanying notes to the basic financial statements are an integral part of this statement.

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Commonwealth of Puerto Rico
Municipality of Ceiba

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds to the Statement of Activities

Fiscal Year Ended June 30, 2011

The amounts of governmental activities reported in the accompanying statement of activities and the statement of revenues, expenditures and changes in fund balances - governmental funds, are different for the following reasons:

Total net increase in fund balances reported in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds	$	3,764,235
Add (Deduct):		
Governmental funds defer the revenues associated earned but unavailable sources. However, these revenues streams are recorded in the statement of activities when earned. This is the net change in the deferred revenues of unavailable sources:		
Intergovernmental grants and contributions		111,991
Construction excise taxes		113,344
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which capital autlays exceded depreciation expense.		3,699,197
The issuance of bonds payable is reported as other financing sources in the governmental funds, however, such issuances of bonds increase the long-term liability in the statement of net assets.		(1,363,318)
Repayment of principal of bonds payable is reported as an expenditure in the governmental funds, however, the repayment reduces the bonds payable liability in the statement of net assets.		469,353
Certain operating expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds:		
Interests on bonds payable		8,749
Net changes in compensated absences and others		56,732
Net increase in net assets, as reported in the accompanying statement of activities	$	6,860,283

The accompanying notes to the basic financial statements are an integral part to this statement.

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1. Summary of Significant Accounting Policies

The Municipality of Ceiba (the Municipality) is a local municipal government constituted in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The Municipal Legislature, whose members are also elected every four years, exercises the legislative power of the Municipality. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2011, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI is information presented along with, but separate from, the Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2011, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

Other supplementary information presented in this report for purposes of additional analysis consists of a budgetary comparison schedule – debt service fund.

On March 2009, the Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56).

GASB 55 incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all GAAP for state and local governments so that they derive from a single source.

GASB 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events.

The adoption of GASB 55 and GASB 56 did not have retroactive cumulative effects affecting the accompanying financial statements as of July 1, 2009, and have not affected the financial positions and the results of operations reported as of and for the fiscal year ended June 30, 2011.

b) Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB*

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Statement No. 14 (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2011.

c) Government-wide Financial Statements

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

  The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

  Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

  The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

  (1) **Debt service** – Represent net resources available to cover future debt service payments of bonds and notes payable.

  (2) **Capital projects** – Represent net resources available for the acquisition, construction or improvement of capital assets.

  (3) **Federal and state funded** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.

- **Unrestricted** – This category consists of the excess of liabilities over related assets (accumulated deficit) that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2011, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:
Municipal legislature
Mayor's office
Department of finance
Department of planning and budget
Department of human resources
Department of municipal secretary
Department of internal audit
Department of public relations

Urban and economic development:
Department of public works
Department of territorial ordering
Department of building conservation

Public safety:
Department of emergency management – civil defense
Department of municipal police

Health and sanitation:
Department of health

Culture, recreation and education:
Department of sports and recreation
Department of tourism
Department of education

Public housing and welfare:
Department of public housing
Department of federal programs
Department of citizen affairs

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

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

The accompanying statement of activities separately reports the following categories of program revenues:

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

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

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other non-tax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

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

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

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

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. On July 1, 2009, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types also were also modified for clarity and consistency.

Pursuant to the provisions set forth by GASB 54, the Municipality reported the following governmental funds in the accompanying GFFS:

- ***General fund*** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

- ***Debt service fund*** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2011, the financial activity accounted for in the debt service fund was specifically related to bonds and notes payable.

  The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, accrued legal claims and judgments and the federal cost disallowances) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund.

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- ***Special revenue funds*** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- ***Capital projects funds*** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

  The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalize assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, (3) the public works partnership fund, (4) the capital improvements bond fund, (5) the legislative joint resolutions fund, and (6) the community development block grant fund.

The public works partnership fund is a major capital projects fund used mainly to account for grants received from the Department of Transportation and Public Works of the Commonwealth of Puerto Rico for use in the construction or improvement of major general infrastructure assets.

The capital improvement bond fund is a major capital projects fund used to account for the receipts and disbursements of the proceeds arising from the issuance of general obligation and permanent improvement serial bonds used in the acquisition, construction or improvement of major capital facilities and assets.

The legislative joint resolutions fund is a major capital projects fund used mainly to account for grants from the state legislature for use in the acquisition, construction or improvement of major capital facilities and assets.

The community development block grant fund is a major capital projects fund used mainly to account for grants received from the U.S. Department of Housing and Urban Development for use in the acquisition, construction or improvement of major capital assets.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.
The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net assets, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

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All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred (unearned) revenues.

According to GASB No. 34, all general capital assets and the un-matured long-term liabilities are recorded only in the accompanying statement of net assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2011, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (unavailable) revenues at June 30, 2011.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred (unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred).

Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2011, which have been recorded as governmental fund liabilities at June 30, 2011, which is the date when resources are available in the debt service funds (generally, June 30).

- Notes payable and compensated absences are recorded only when they mature (when payment is due).

- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

f) Stewardship, Compliance, and Accountability

Budgetary Control

According to Act No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding

May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required settling claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule – general fund and the budgetary comparison schedule – debt service fund provide information about the general and debt service funds' original budgets, its amendments, and the actual results of operations of such major governmental funds under the budgetary basis of accounting for the fiscal year ended June 30, 2011. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2011, which is prepared by the Municipality's Department of Finance. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general and debt service funds' budgetary bases and GAAP actual amounts are presented at the bottom of the respective budgetary comparison schedules.

g) *Unrestricted and Restricted Deposits*

The Municipality's deposits are composed of demand deposits in commercial banks and the Government Development Bank for Puerto Rico (fiscal agent).

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). Agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name hold all securities pledged as collateral.

Cash in fiscal agent in the debt service fund consists of cash related to property tax collections amounting to $ 2,772,470, which is restricted for the payment of the Municipality's debt service, and intergovernmental contributions received from the Commonwealth of Puerto Rico. Cash in fiscal agent in the capital improvements bond fund amounting to $1,476,968 consist of unspent bond proceeds that are restricted for the acquisition, construction or improvement of major capital assets.

Restricted cash in commercial banks, amounting to $3,144,685 represents mainly the balance of interest and non-interest bearing accounts restricted to finance the operations of certain federal and state funded federal award programs.

h) Unrestricted and Restricted Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2011. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Pursuant to the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues of Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), transactions in which the Municipality is willing to exchange an interest in its expected future cash flows from collecting specific receivables or specific future revenues for immediate cash payments, generally, a single lump sum are either regarded as a sale or as a collateralized borrowing resulting in a liability depending on its continuing involvement with those receivables or future revenues. Accordingly, a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue is deferred and amortized, except when specific criteria are met.

i) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of $500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under $500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures), while all assets with individual costs under $500 are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight–line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	Years
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	5
Furniture, fixtures, machinery and equipment, excluding those held under capital leases	5 to 20
Equipment held under capital leases	3 to 5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

j) *Deferred Revenues*

In the GFFS, deferred revenue arises when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *"earned but unavailable revenue"* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.

- The Municipality receives resources before it has a legal claim to them (reported as *"unearned revenue"* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *"unearned revenue"* in the accompanying statement of net assets). No *"earned but unavailable revenue"* is accounted for in the accompanying statement of net assets.

k) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2011 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously.

After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

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The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

l) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable; notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1, 2011 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2011). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs have been capitalized and reported as deferred charges, which are being amortized under the straight-line method over the life of the debt. In the GFFS, such costs are recorded as expenditures as incurred.

For non-interest bearing notes payable the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

m) Leases

The Municipality classifies its lease agreements either as operating or capital leases obligations. Capital lease agreements are generally non-cancelable and involve substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease. The Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.

- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria, and have a fiscal funding or a cancellation clause, have been accounted for as capital leases in the accompanying statement of net assets.

GWFS, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments or escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executor costs and profit thereon to be paid by the lesser. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease, if applicable, is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the GFFS.

n) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (formerly Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities) (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality. The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

o) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2011 is $35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2011. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

p) Fund Balances

On July 1, 2009, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the accompanying GFFS report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

a. *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.

b. *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

c. *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution.

d. *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

e. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

   Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue and capital project fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB 54. In addition, the financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2011 have not been affected for this change in accounting principle. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2010.

q) *Inter-fund Activities*

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

- ***Inter-fund loans*** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as *"due from"* in the lender governmental fund and *"due to"* in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as *"advances"*. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a *"transfer-in"* from the governmental fund that provided the loan.

- ***Inter-fund transfers (transfers-in/(out))*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as *"other financing uses"* in the governmental fund making transfers and as *"other financing sources"* in the governmental fund receiving transfers.

- ***Inter-fund reimbursements*** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

r) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

s) Future Adoption of Accounting Pronouncements

The GASB has issued the following statements that have effective dates after June 30, 2011:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2011.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2012.

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

t) Subsequent Events

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through November 7, 2011, the date the financial statements were issued.

2. Deposits

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

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, and (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any other types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits are considered low at June 30, 2011.

- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2011, the Municipality's investments in certificates of deposit are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

- **Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2011.

3. Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Ceiba. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2011, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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Each taxpayer must asses the corresponding municipal license tax by declaring the volume of business through a tax return filed every April 15, based on the actual volume of business (revenues) earned in the preceding calendar year. Taxpayers with a sales volume of $3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS. Total municipal license tax receivable amounted to $35,713 at June 30, 2011. Unearned municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to $252,511 at June 30, 2011.

4. Property Taxes

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of $15,000 (at 1957 estimated market prices).

CRIM is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds to the Municipality based on the initial estimated collection amounts for the fiscal year. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a preliminary basis not later than December 31 following the fiscal year end.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2011 was 6.83 percent (of which taxpayers pay 6.63 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2011 was 8.83 percent (of which 8.63 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first $15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than $3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Act No. 81, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the Commonwealth's debt service fund, for the payment of the general long-term debt of the Commonwealth.

In addition, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Furthermore, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rates that is recorded in the Municipality's general fund, of which a portion is restricted for the payment of: (1) the insurance premiums acquired through the Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Additional Lottery System of the Commonwealth (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of $26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

- An additional amount not exceeding $16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

At June 30, 2011, property taxes receivable recorded in the general and debt service fund amounted to $873,150 and $ 7,124 respectively, net of a reserve for doubtful accounts.

5. Sales and Use Taxes

The Municipality imposes a sales and usage tax within the territorial limits of the Municipality pursuant to the Internal Revenue Code of the Government of Puerto Rico. This is a self-assessed tax consisting of one and a half percent (1.5%) on the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected monthly in a tax return that is due twenty calendar days after the end of each month.

A portion of the sales tax amounting 0.2% is restricted for the payment of long-term debt and is recorded in the debt service fund. The remaining portion of 1.3% is recorded in the general fund since is available for general operating purposes.

Sale tax receivable represents sales tax levied that were collected subsequent to June 30, 2011, but pertaining to current year period. At June 30, 2011, the sales and use taxes receivable amounted to $16,225.

6. Construction Excise Taxes

The Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings and structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, project design and other engineering fees, licenses and permits, legal and accounting fees, and most marketing and advertising costs. The tax is paid by the taxpayer at the beginning of the project.

All single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, are partially exempt from construction excise taxes. In addition, a portion of all single-family residential improvement projects are exempt from construction excise taxes. All projects carried out on buildings and structures classified as historical treasures by the Puerto Rico Planning Board have an in the tax rate applicable to construction excise taxes.

Construction excise tax receivable represents taxes that were collected subsequent to June 30, 2011, but pertaining to current year period. At June 30, 2011, the construction excise taxes receivable amounted to $376,688.

7. Inter-Fund Transactions

The composition of inter-fund balances at June 30, 2011 and for the fiscal year then ended is as follows:

	Due from other funds:					
Due to other funds:	General fund	Legislative joint resultions fund	Debt service fund	Community development block grant fund	Other governmental funds	Total governmental funds
Major governmental funds:						
General fund	$ -	$ -	$ -	$ -	$ 1,177	$ 1,177
Public works partnership fund	189,421	700	-	-	-	190,121
Community development block grant fund	159,814	-	-	-	-	159,814
Debt service fund	59	-	-	-	-	59
Other governmental funds	20,407	-	-	-	-	20,407
Total	$ 369,701	$ 700	$ -	$ -	$ 1,177	$ 371,578

	Transfers from other funds:					
Transfers to other funds:	General fund	Legislative joint resultions fund	Debt service fund	Community development block grant fund	Other governmental funds	Total governmental funds
Major governmental funds:						
General fund	$ -	$ -	$ 12,636	$ -	$ 7,665	$ 20,301
Capital improvements bond fund	62,860	-	-	-	-	62,860
Debt service fund	683	-	-	-	-	683
Total	$ 63,543	$ -	$ 12,636	$ -	$ 7,665	$ 83,844

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8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2011:

Governmental Activities:	Balance at beginning of fiscal year	Additions	Reclassifications	Balance at end of fiscal year
Cost basis:				
Capital asset, not being depreciated:				
Land	$ 2,017,998	$ -	$ -	$ 2,017,998
Construction in progress	2,216,061	255,394	(1,613,249)	858,206
Total capital assets, not being depreciated/amortized	4,234,060	255,394	(1,613,249)	2,876,205
Capital assets, being depreciated:				
Buildings, structures, and improvements	6,363,226	1,101,299	1,001,758	8,466,283
Infraestructure	4,464,930	2,746,549	611,491	7,822,970
Vehicles, machinery and equipmnet, and furniture and fixtures	1,266,545	399,671	-	1,666,217
Works of art	20,000	6,231	-	26,231
Total capital assets, not being depreciated/amortized	12,114,701	4,253,750	1,613,249	17,981,700
Total cost basis of capital assets	16,348,761	4,509,144	-	20,857,905

	Accumulated Depreciation/ amortization at beginning of fiscal year	Depreciation and amortization expense	Retirements	Accumulated Depreciation/ amortization at end of of fiscal year
Accumulated depreciation and amortization:				
Buildings, structures, and improvements	$ (2,001,958)	$ (405,700)	$ -	$ (2,407,659)
Infraestructure	(577,775)	(209,371)	-	(787,146)
Vehicles, machinery and equipmnet, and furniture and fixtures	(924,820)	(193,629)	-	- (1,118,449)
Works of art	(20,000)	(1,246)	-	(21,246)
Total accumulated depreciation and amortization	(3,524,553)	(809,947)	-	(4,334,499)
Net capital assets	**$ 12,824,208**	**$ 3,699,197**	**$ -**	**$ 16,523,406**

Depreciation and amortization expense for the fiscal year ended June 30, 2011, was charged to fuctions/programs as follows:
Governmental activities:

General government	$ (134,991)
Public safety	(134,991)
Public works	(134,991)
Culture, recreation and education	(134,991)
Health and welfare	(134,991)
Urban and economic development	(134,992)
Total depreciation and amortization expenses	$ (809,947)

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9. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2011 is as follows:

	Balance at beginning of fiscal year	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds payable	$ 2,647,600	$ 1,363,318	$ (396,018)	$ 3,614,900	$ 423,900
Notes payable:					
Municipal Revenue Collection Center:					
Public Act No. 42 of January 26, 2000	763,106	-	(19,456)	743,650	17,336
Public Act No. 146 of October 11, 2001	31,409	-	(15,347)	16,062	16,062
Government Development Bank for Puerto Rico	-	118,318	-	118,318	-
Compensated absences	1,339,864	1,265,734	(1,339,864)	1,265,734	233,674
Total	$ 4,781,979	$ 2,747,370	$ (1,770,685)	$ 5,758,664	$ 690,972

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances, obligations under capital leases and any other long-term liabilities other than bonds.

a) *Debt Limitation*

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and

- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b) *Bonds Payable*

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in Note 4, the Municipality levies an annual additional special tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2011:

	Outstanding Amount
1992-1993 serial bonds (face amount of $175,000) due in annual principal installments ranging from $4,000 to $12,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2010) through January, 1, 2017.	$ 66,000
1998-1999 serial bonds (face amount of $ 1,060,000) due in annual principal installments ranging from $30,00 to $125,000; plus interests due in semiannually installments at variable rates (1.29% at June 30, 2010) through January, 1, 2012.	235,000
1999-2000 serial bonds (face amount of $130,000) due in annual principal installments ranging from $5,000 to $15,000; plus interests due in semiannually installments at variable rates (4.30% at June 30, 2010) through January 1, 2014.	50,000
2001-2002 serial bonds (face amount $270,000) due in annual principal installments ranging from $5,000 to $25,000; plus interests due in semiannually installments at variable rates (1.29% at June 30, 2010) through January 1, 2026.	225,000
2001-2002 serial bonds (face amount of $855,000) due in annual principal installments ranging from $15,000 to $65,000; plus interests due in semiannually installments at variable rates (4.30% at June 30, 2010) through January 1, 2026.	680,000
2001-2002 serial bonds (face amount of $220,000) due in annual principal installments ranging from $5,000 to $20,000; plus interests due in semiannually installments at variable rates (4.50% at June 30, 2010) through July 1, 2026.	175,000

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	Outstanding Amount
2006-2007 serial bonds (face amount of $205,000) due in annual principal installments ranging from $25,000 to $35,000; plus interests due in semiannually installments at variable rates (1.54% at June 30, 2011) through July 1, 2013.	$ 100,000
2001-2002 serial bonds (face amount of $30,000) due in annual principal installments ranging from $2,200 to $3,900; plus interests due in semiannually installments at variable rates (1.29% at June 30, 2011) through January 1, 2011.	3,900
2002-2003 serial bonds (face amount of $280,000) due in annual principal installments ranging from $5,000 to $25,000; plus interests due in semiannually installments at variable rates (1.54% at June 30, 2011) through July 1, 2027.	240,000
2009-2010 serial bonds (face amount of $605,000) due in annual principal installments ranging from $70,000 to $105,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2011) through July 1, 2016.	535,000
2009-2010 serial bonds (face amount of $70,000) due in annual principal installments of $10,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2011) through July 1, 2016.	60,000
2011-2017 serial bonds (face amount of $1,245,000) due in annual principal installments ranging from $140,000 to $220,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2011) through July 1, 2017.	1,245,000
Total bonds payable	$3,614,900

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code. Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2012	$ 423,900	94,657	$ 518,557
2013	337,115	146,475	483,590
2014	363,215	124,407	487,622
2015	254,215	105,843	360,058
2016	229,215	92,785	322,000
2017-2021	815,080	305,026	1,120,106
2022-2026	706,080	164,446	870,526
2027-2031	486,080	21,735	507,815
Totals	$ 3,614,900	1,055,374	$ 4,670,274

At June 30, 2011, accrued interest payable on bonds amounted to $69,463.

c) Notes Payable to CRIM

The Municipality had the following notes payables to CRIM at June 30, 2011:

- **Public Act No. 146** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Public Act No. 146 of October 11, 2001, as amended (Act No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

  The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund.

  The outstanding principal of the note payable to CRIM amounted to $16,062 at June 30, 2011. The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2012	$ 16,062	321	$ 16,383
Totals	$ 16,062	321	$ 16,383

- **Public Act No. 42** – The Commonwealth's Pubic Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to $200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

  In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.19 percent at June 30, 2010) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal amounted to $743,650 at June 30, 2011.

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The principal and interest maturities are as follows:

Fiscal year ending June 30,		Principal		Interest		Total
2012	$	17,336	$	45,944	$	63,280
2013		18,425		44,855		63,280
2014		19,514		43,766		63,280
2015		20,603		42,677		63,280
2016		21,015		42,264		63,279
2017-2021		99,825		190,190		290,015
2022-2026		139,365		161,213		300,578
2027-2031		192,996		64,714		257,710
2032-2036		214,571		25,007		239,578
Totals	$	743,650	$	660,630	$	1,404,280

d) Notes Payable to Government Development Bank for Puerto Rico

Notes payable to the Government Development Bank for Puerto Rico represents a revolving line of credit with an approved limit of $930,000 of which $118,318 were borrowed through June 30, 2011. The notes bear interests at variable rates (6.00% at June 30, 2011). The proceeds of the notes have been used for acquisition, construction and improvement of certain capital assets. At June 30, 2011, the unused portion of the credit facility amounted to $811,682.

10. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- ***Retirement Annuity***

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of $300 per month and a maximum of 75 percent of the average compensation.

- ***Merit Annuity***

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- ***Deferred Retirement Annuity***

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- ***Coordinated Plan***

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

(a) $165 per month, if retired with 55 years of age and 30 years of credited service.

(b) $110 per month, if retired with less than 55 years of age and 30 years of credited service.

(c) All other between $82 and $100 per month.

(d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

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- ***Reversionary Annuity***

  An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

  A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Non-occupational Disability Annuity***

  A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

- ***Death Benefits***

  Occupational:

  (a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.

  (b) **Children** – $10 per month for each child, minor or student, up to a maximum benefit per family of $100.

  Non-occupational:

  Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

  Post-retirement:

  Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

- ***Refunds***

  A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Recent Amendments to Act No. 447***

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:
Increase in minimum monthly pension payments to $300, effective January 1, 2005.

(a) Triennial 3 percent increase in all pensions, effective January 1, 2005.

(b) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from $3,000 to $5,000.

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to $6,600 per year, plus 8.28 percent gross salary in excess of $6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and majors

11. Commitments and Contingencies

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any.

The Municipality has reported, outstanding encumbrances amounting to $1,214,937 in the general fund at June 30, 2011. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

12. Fund Balances

As of June 30 2011, fund balance is comprised of the following:

Fund balances:	General fund	Debt service fund	Capital improvements bond fund	Legislative joint resolutions fund	Other governmental funds	Total
Restricted:						
Debt service	$ -	$ 2,348,060	$ -	$ -	$ -	$ 2,348,060
Capital projects	-	-	1,476,968	1,817,543	-	3,294,511
Federal funded programs	-	-	-	-	204,377	204,377
Assigned for:						-
General government	1,214,937	-	-	-	-	1,214,937
Unassigned	567,141	-	-	-	-	567,141
Total fund balances	$ 1,782,078	$ 2,348,060	$ 1,476,968	$ 1,817,543	$ 204,377	$ 7,629,026

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2011

	Budgeted amounts Original	Budgeted amounts Final	Actual amounts (budgetary basis)	Variance with final budget- over (under)
Revenues				
Property taxes	$ 5,540,562	$ 5,540,562	$ 5,540,562	$ -
Municipal license taxes	455,472	455,472	680,919	225,447
Sales and taxes	-	-	281,408	281,408
Construction excise taxes	1,387,634	1,387,634	953,980	(433,654)
Charges for services	52,769	52,769	79,221	26,452
Intergovernmental grants and contributions	1,044,207	1,044,207	1,060,071	15,864
Interest	10,000	10,000	64,662	54,662
Miscellaneous	152,343	152,343	108,290	(44,053)
Other financing sources	-	-	63,543	63,543
Total revenues and transfers from other funds	**8,642,987**	**8,642,987**	**8,832,656**	**189,669**
Expenditures				
Current:				
General government	3,507,325	3,629,265	3,391,962	(237,303)
Urban and economic development	2,197,013	2,061,169	1,823,001	(238,168)
Health and sanitation	345,222	345,222	749,023	403,801
Public safety	1,067,744	1,062,944	973,294	(89,650)
Public housing and welfare	598,792	618,096	540,165	(77,931)
Culture, recreation and education	345,183	344,583	327,930	(16,653)
Debt service:				
Principal	34,803	34,803	34,803	-
Interest	45,390	45,390	45,390	-
Capital outlay	501,515	501,515	501,515	-
Other financing uses	-	-	20,301	20,301
	8,642,987	**8,642,987**	**8,407,384**	**(235,603)**
Excess of revenues over expenditures	$ -	$ -	$ 425,722	$ 425,722

Sources/Inflows of Resouces:	
Actual Amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 8,832,656
Differences - budget basis to GAAP:	
Transfer in from other governmental funds	(63,543)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 8,769,113
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	$ 8,407,384
Differences - budget basis to GAAP:	
Current year encumbrances	(1,214,937)
Prior year encumbrances	1,400,700
Net change in payables	(1,005,302)
Transfers out other governmental funds	(20,301)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 7,567,544

The accompanying notes to the basic financial statements are an integral part of this schedule.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		$ 206,533
Pass-through Commissioner Office of Municipal Affairs State Block Grant Program - SBGP	14.228		2,227,236
ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257		80,824
Subtotal U.S. Department of HUD			2,514,593
U.S. Department of Health and Human Services (HHS)			
Pass-through Oficina de la Procuradora de las Personas con Edad Avanzada:			
-Special Program for the Aging Title II, Part C Nutrition Services	93.045		62,943
Pass through Administration for Children and Families - Community Services Block Grant Program	93.569		22,582
Subtotal U.S. Department of HHS			85,525
TOTAL			$ 2,600,118

See notes to Schedule of Expenditures of Federal Awards.

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NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Municipality of Ceiba of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of Ceiba reporting entity is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in our used in the preparation of the basic financial statements.

NOTE 2 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general purpose financial statements as other governmental funds and capital project fund under the accrual basis of accounting.

NOTE 3 - FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

NOTE 4 - BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Federal expenditures per basic financial statements included within:

Community development block grant	$ 2,227,236
Federal expenditures included within other governmental funds	372,882
Total Federal expenditures per schedule	$2,600,118

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Puerto Rico Board of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ceiba, as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 7, 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.

<u>Internal Control over Financial Reporting</u>

Management of the Municipality is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Municipality's internal control over financial reporting as 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting, (2011-A). A *significant deficiency*, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Ceiba'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 test disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned costs as item 2011-A.

This report is intended solely for the information and use of management, Commissioner Office of Municipal Affairs, others within the entity and the 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.

San Juan, Puerto Rico
November 7, 2011

Ortiz, Rivera, Rivera & Co.

The stamp E16517 was affixed to the original of this report.

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ORR&Co.
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Puerto Rico Board of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Municipality of Ceiba's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Ceiba's major federal programs for the year ended June 30, 2011. Municipality of Ceiba's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Ceiba's management. Our responsibility is to express an opinion on Municipality of Ceiba's compliance based on our audit.

Except as discussed in the following paragraphs, 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 Municipality of Ceiba'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 Municipality of Ceiba's compliance with those requirements.

As described in items 11-1 through 11-3 in the accompanying schedule of findings and questioned costs, the Municipality of Ceiba did not comply with requirements regarding cash managements, equipment and real property management and Davis Bacon Act that are applicable to its State Block Grant program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Ceiba to comply with requirements applicable to that program.

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In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Ceiba complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the y ear ended June 30, 2011.

Internal Control over Compliance

Management of Municipality of Ceiba is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Ceiba's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-2 and 11-3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, Commissioner Office of Municipal Affairs, others within the entity and the 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.

San Juan, Puerto Rico
November 7, 2011

Ortiz, Rivera, Rivera & Co.

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I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified opinion			
Internal control over financial reporting:				
Material weakness (es) identified?		Yes	X	No
Significant deficiency (ies) identified?	X	Yes		No
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal Control over major programs:				
Material weakness (es) identified?		Yes	X	No
Significant deficiency (ies) identified	X	Yes		No
Type of auditor's report issued on compliance for major programs:	Qualified			
Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?	X	Yes		No

Identification of major programs:

CFDA Number	Name of federal programs or Cluster
14.228	State Block Grant Program

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Audited qualified as low-risk auditee?		Yes	X	No

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II. FINANCIAL STATEMENTS FINDINGS

a. Finding 2011-A - General Ledger

The Municipality does not have the accounting practices, policies or internal controls in place to provide for the preparation of financial statements, on a timely basis, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The accounting system does not provide for a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities, revenues, expenditures and changes in fund balances. Therefore, the financial statements must be prepared using financial information obtained from various departments and accounting records.

The records are not integrated, and do not follow a double entry system (debits and credits). As a result the records required significant adjustments in order to present the financial position and results of operations of the Municipality in conformity with generally accepted accounting principles.

The continued failure to have an adequate accounting system prevents the Municipality from having current accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

Recommendation

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the general ledger, as well as the preparation of year -end financial statements in accordance with generally accepted accounting principles.

This plan should provide for:

1) Assessment of the financial accounting and reporting needs in order to take the necessary steps to meet the financial reporting requirements of GASB Statement No. 34.

2) The implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for the federal funds.

3) The preparation of periodic financial reports to be submitted to the Finance Director and all other interested entities.

4) Adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency.

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5) Reconciliation of financial records with the reports prepared and submitted to the federal government.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program	Finding / Noncompliance	Questioned Costs
SBGP CFDA No. 14.228	**Condition 11-1** The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds. Criteria The 24CFR 85.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures. Cause The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs. Recommendation The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.	**$ -0-**

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Program	Finding / Noncompliance	Questioned Costs
SBGP CFDA NO. 14.228	**Condition 11-2**	
	The Municipality does not have adequate controls over property and equipment acquired with federal funds.	**$ -0-**

Criteria

As stated in 24CFR 85.32(b) grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations and unobligated balances. Grantees and subrantees must adequately safeguard all such property and must assure that it is used solely for autorized purposes.

Cause

The Municipality has inadequate internal control procedures to prepare adjustments for recording transactions in the fixed assets subsidiary ledger.

Effect

The continuous occurrence of this situation may result in the misappropriation of assets acquired with federal funds. In addition, sanctions could be imposed by the federal awarding agency.

Recommendation

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other

Program	Finding / Noncompliance	Questioned Costs
	dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other that the users, and through public announcement or bids. In addition, the Finance Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with the recorded in the control account. In addition, the subsidiary ledger should be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal offices.	
SBGP CFDA No. 14.228	**Condition 11-3**	
	The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, none of the contracts selected have the certified payrolls.	**$ -0-**
	Criteria	
	The Davis Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).	

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Program	Finding / Noncompliance	Questioned Costs
	Cause The program's management failed to monitor the laborers employed by contractors to assure they are paid the prevailing wage rates and includes the certified payrolls. Effect The continued failure to implement internal controls and ensure compliance with the above requirement may expose the Municipality to cost disallowances. Recommendation The Municipality should require to the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.	

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
Schedule of Status of Prior Year
Audit Findings and Questioned Cost
June 30, 2011

During the current examination, follow up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

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Program	Finding / Noncompliance	Questioned Costs
SBGP CFDA No. 14.228	**Condition 10-2** The Municipality does not have adequate controls over property and equipment acquired with federal funds.	Condition still prevails.
SBGP CFDA No. 14.228	**Condition 10-3** The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.	Condition still prevails.
SBGP CFDA No. 14.228	**Condition 09-2** The Municipality does not have adequate controls over property and equipment acquired with federal funds.	Condition still prevails.

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CORRECTIVE ACTION PLAN

ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE CEIBA
DEPARTAMENTO DE FINANZAS

APARTADO 224 CEIBA, PUERTO RICO 00735

CORRECTIVE ACTION PLAN

November 30, 2011

Cognizant or Oversight Agency for Audit:

Municipality of Ceiba respectfully submits the following corrective action plan for the year ended June 30, 2011.

> Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.
>
> Audit period: Fiscal year ended June 30, 2011

The findings from the June 30, 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 11-1: SBGP- CFDA 14.228

Reportable Condition: See Condition 11-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Action Taken

The Municipality will establish procedures to coordinate efficiently the request of funds and disbursements within the maximum period established. Also, the documentation will be updated to avoid the delay in disbursements after received the funds.**Finding 11-2: SBGP- CFDA 14.228**

Reportable Condition: See Condition 11-2

Recommendation

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance

Director, and should be carried out by persons other that the users, and through public announcement or bids.

In addition, the Finance Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with the recorded in the control.

Reportable Condition: See Condition 11-2

Recommendation

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other that the users, and through public announcement or bids.

In addition, the Finance Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with the recorded in the control account. In addition, the subsidiary ledger should be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal offices.

Action Taken

The Federal Program Office will prepare a report including a full description of all the property that corresponds to the federal program, according the subsidiary ledger of the Finance Department.

Finding 11-3: SBGP- CFDA 14.228

Reportable Condition: See Condition 11-3

Recommendation

The Municipality should require to the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.

Action Taken

The Municipality will establish procedures to coordinate with the contractors the realization of interviews to the employees to assure that wages paid are not less than those established by the DOL. If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call (787) 885-2180.

Cordially,

Margarita Meléndez
Finance Director

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