

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

MUNICIPIO DE COMERIO
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2010**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2010**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Carlos R. Díaz Negrón

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, 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 Comerío** as of and for the year ended June 30, 2010 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the business-type activities. Those statements were audited by other auditors whose report has been furnish to me, and our opinion, insofar as it relates to the amounts included for Río Plata Development, is based solely on the report of the other auditors.

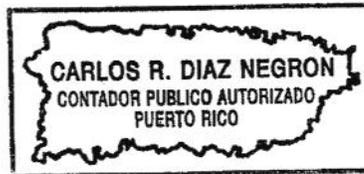
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

In our opinion based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Comerío** as of June 30, 2010, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In accordance with Governmental Auditing Standards, we have also issued our report dated November 12, 2010, on our consideration of the Municipality of Comerío' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 41 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



November 12, 2010.
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013

The Stamp No. **2564402** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

INTRODUCTION

The following discussion presents an overview of the financial position and financial activities of the Municipality Autonomous of Comerío (The Municipality) for the year ended June 30, 2010. This discussion was prepared by the Municipality management and should be read in conjunction with the financial statements and notes thereto, which follow.

FINANCIAL HIGHLIGHTS

The financial position of the Municipality remains strong at June 30, 2010, with total assets of \$63,444,258, total liabilities of \$10,431,645, and total net assets of \$53,012,613. Municipality net assets increased \$3,716,603 in comparison with June 30, 2009 balance of \$49,296,010. An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement.

Condensed financial statements for the Municipality at June 30, 2010.

Condensed Statement of Net Assets

	2009	2010
Assets		
Capital Assets	\$47,382,865	\$51,965,346
Other Assets	<u>14,645,129</u>	<u>11,478,912</u>
	<u>62,027,994</u>	<u>63,444,258</u>
Liabilities and NET Assets		
Long-Term Debt	8,904,465	8,606,940
Other Liabilities	<u>3,827,491</u>	<u>1,824,705</u>
	<u>12,731,956</u>	<u>10,431,645</u>
Invested in Capital Assets	44,582,673	48,708,819
Restricted for Debt Service	845,342	1,046,787
Capital Projects	4,374,563	6,391,897
Replacement and Others	1,150,695	1,142,080
Unrestricted	<u>(1,657,263)</u>	<u>(4,276,970)</u>
Total Net Assets	<u>\$49,296,010</u>	<u>\$53,012,613</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY AUTONOMOUS OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
CONDENSED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	<u>2009</u>	<u>2010</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 808,788	\$ 735,825
Operating Grants	1,835,427	1,981,193
Capital Grants	8,140,100	3,494,118
General Revenue:		
Taxes:		
Property Tax	920,809	951,664
Municipal Tax	611,511	584,490
Sale Tax	903,971	1,017,064
Construction Excise Taxes	284,671	230,267
Grants and Entitlements	7,854,828	7,509,328
Interest, Rents and Others	<u>268,185</u>	<u>560,804</u>
	21,628,290	17,064,753
Expenditures		
General Administration	6,624,004	5,994,188
Public Safety	866,037	857,059
Education, Culture and Recreational	890,344	889,679
Public Works and Sanitation	5,048,115	2,147,797
Health and Welfare	2,013,957	1,890,000
Public Relation	396,110	363,837
Planning and General Services	500,338	521,270
Interest	132,112	173,631
Housing	454,193	427,283
Housing Interest	92,890	83,406
	<u>\$17,018,100</u>	<u>\$13,348,150</u>
Changes in Net Assets	<u>\$ 4,610,190</u>	<u>\$ 3,716,603</u>
Net Assets at beginning	<u>\$44,685,910</u>	<u>\$49,296,010</u>
Net Assets at end	<u>\$49,296,010</u>	<u>\$53,012,613</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY AUTONOMOUS OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2010

USING THE FINANCIAL STATEMENTS

The Municipality's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, Financial Statements and Management's Discussion and Analysis for State and Local Governments. The financial statement presentation required by GASB statement no. 34 provides a comprehensive, entity-wide perspective of the Municipality's assets, liabilities, net assets, revenues, expenditures, changes in net assets and cash flows.

The financial statements report information of the Municipality's as a whole and include the financial results of Rio Plata Development, a Business Type Division of the Municipality.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance 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 the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2010 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY AUTONOMOUS OF COMERIO
Management's Discussion And Analysis (Continued)
Year Ended June 30, 2010

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2010. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture, recreation and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which 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.

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.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY AUTONOMOUS OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2010

accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has six major funds: (1) the general fund, (2) the debt service fund, (3) HUD Block Grant, (4) \$3,817,000 Loan, (5) bond fund and (6) special communities' trust fund.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Statement of Net Assets

The statement of net assets presents the assets, liabilities and net assets of the Municipality as of the fiscal year ended June 30, 2010. The net assets are displayed in three parts, invested in capital assets, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes. The statement of net assets, along with the Municipality's basic financial statements, is prepared under the accrual basis of accounting, whereby revenues are recognized when realized and expenses are recorded when the service or good is received, regardless of when the cash is exchanged.

Cash and cash equivalents represents 4.32% of total assets while cash with fiscal agent represents 7.12% of it. Capital assets amount to 81.91% of total assets. The other 6.65% represents receivables, restricted cash and investment in certificates of deposit.

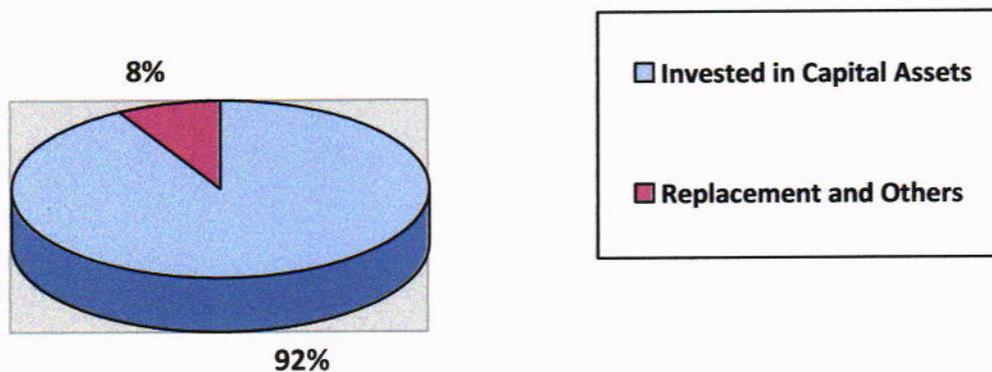
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY AUTONOMOUS OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

Municipality's cash and cash equivalents changed from \$1,871,643 at June 30, 2009 to \$2,738,677 at June 30, 2010. Capital Assets increased from \$47,382,865 to \$51,965,346 for the same period.

Current liabilities consists primary of accounts payable and accrued expenses which represent 17.49% of total liabilities. Long term debt represents 85.51% of total liabilities.

Net assets represent the residual interest in the Municipality's assets after liabilities are deducted.

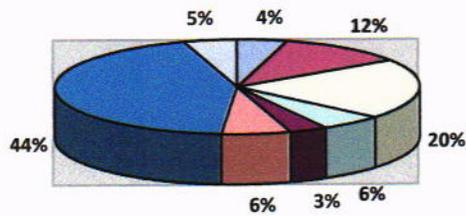
Net Assets



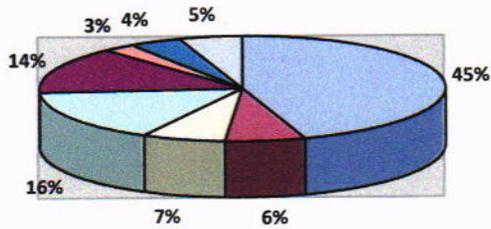
As of June 30, 2010, net assets amounted to \$53,012,613. Net assets invested in capital assets amounted to \$48,708,819 (92%). Replacement and Others net assets amounted to \$4,303,794 (8%).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY AUTONOMOUS OF COMERÍO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

The following illustrations demonstrate the Municipality's major sources of revenues and expenses.



- Charges for Services
- Operating Grants
- Capital Grants
- Property Taxes
- Municipal Tax
- Sales Tax
- Grants and Entitlements
- Interest and Others



- General Administration
- Public Safety
- Education, Culture and Recreational
- Public Works and Sanitation
- Health and Welfare
- Public Relation
- Planning & General Services
- Other

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

PRIMARY GOVERNMENT			
ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS – TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 2,734,858	\$ 3,819	\$ 2,738,677
Cash with fiscal agent	4,518,855		4,518,855
Investment in certificates of deposit	1,050,000		1,050,000
Accounts receivable:			
Other agencies	1,454,246	57,822	1,512,064
Other		8,071	8,071
Property tax	534,073		534,073
Sale tax	71,512		71,512
Restricted cash		1,045,656	1,045,656
Capital assets, net	<u>51,077,205</u>	<u>888,141</u>	<u>51,965,346</u>
Total Assets	<u>61,440,749</u>	<u>2,003,509</u>	<u>63,444,258</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	880,325	125,183	1,005,508
Deferred revenue	622,611		622,611
Deposits	81,051	14,138	95,189
Due to other agencies	101,397		101,397
Long-term debt:			
Due within one year	1,039,507	103,037	1,142,544
Due in more than one year	<u>6,593,019</u>	<u>871,377</u>	<u>7,464,396</u>
Total Liabilities	<u>9,317,910</u>	<u>1,113,735</u>	<u>10,431,645</u>
Invested in capital assets, net of related liabilities	48,795,092	(86,273)	48,708,819
Restricted for:			
Debt service	1,046,787		1,046,787
Capital project	6,391,897		6,391,897
Other	96,424		96,424
Replacements and other		1,045,656	1,045,656
Unrestricted	<u>(4,207,361)</u>	<u>(69,609)</u>	<u>(4,276,970)</u>
Total Net Assets	<u>\$52,122,839</u>	<u>\$ 889,774</u>	<u>\$53,012,613</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ (5,994,188)		\$ 109,839		\$(5,884,349)
Public safety	(857,059)		216,303		(640,756)
Education, culture and recreational	(889,679)	\$ 6,341	251,142		(632,196)
Public works and sanitation	(2,147,797)			\$3,494,118	1,346,321
Health and welfare	(1,890,000)	163,997	1,403,909		(322,094)
Public relations	(363,837)				(363,837)
Planning and general service	(521,270)				(521,270)
Interest	<u>(173,631)</u>				<u>(173,631)</u>
Total governmental activities	<u>(12,837,461)</u>	<u>170,338</u>	<u>1,981,193</u>	<u>3,494,118</u>	<u>(7,191,812)</u>
Business type-activities:					
Housing	(427,283)	565,487			138,204
Interest	<u>(83,406)</u>				<u>(83,406)</u>
	<u>(510,689)</u>	<u>565,487</u>			<u>54,798</u>
Total	<u>\$(13,348,150)</u>	<u>\$735,824</u>	<u>\$1,981,193</u>	<u>\$3,494,118</u>	<u>\$(7,137,014)</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	\$ (7,191,812)	\$ 54,798	\$ (7,137,014)
General revenue:			
Taxes:			
Property taxes	951,664		951,664
Municipal tax	584,490		584,490
Sale tax	1,017,064		1,017,064
Construction excise tax	230,267		230,267
Grants and entitlements	7,509,328		7,509,328
Licenses and permits	5,737		5,737
Interest	103,417	2,924	106,341
Rent	245,334		245,334
Other	<u>202,542</u>	<u>850</u>	<u>203,392</u>
Total general revenues	<u>10,849,843</u>	<u>3,774</u>	<u>10,853,617</u>
Changes in net assets	3,658,031	58,572	3,716,603
Net assets at beginning	<u>48,464,808</u>	<u>831,202</u>	<u>49,296,010</u>
Net assets at end	<u>\$52,122,839</u>	<u>\$889,774</u>	<u>\$ 53,012,613</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2010

MAYOR FUNDS

	GENERAL FUND	DEBT SERVICE FUNDS	HUD BLOCK GRANT	LOAN FUND	BONDS FUND	SPECIAL COMMUNITIES TRUST FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:								
Cash in bank	\$ 381,515		\$ 4,938		\$283,555	\$ 964,272	\$1,100,578	\$ 2,734,858
Cash with fiscal agent		\$ 916,962		\$3,196,887			405,006	4,518,855
Investment in saving certificates	250,000				600,000	200,000		1,050,000
Receivables:								
Property taxes	436,573	97,500						534,073
Sale tax	39,187	32,325						71,512
Due from other governmental agencies	79,309		228,563				1,146,374	1,454,246
Due from other funds	<u>1,051,145</u>						<u>292,639</u>	<u>1,343,784</u>
Total Assets	<u>\$2,237,729</u>	<u>\$1,046,787</u>	<u>\$ 233,501</u>	<u>\$3,196,887</u>	<u>\$883,555</u>	<u>\$1,164,272</u>	<u>\$2,944,597</u>	<u>\$11,707,328</u>
Liabilities:								
Accounts payable and accrued expenses	\$ 590,946		\$ 196,908				\$ 41,428	\$ 829,282
Deferred revenues	800,716	\$ 94,346					244,344	1,139,406
Deposits	81,051							81,051
Due to other fund	292,639		36,593				1,014,552	1,343,784
Due to other agencies	<u>101,397</u>							<u>101,397</u>
Total Liabilities	<u>1,866,749</u>	<u>94,346</u>	<u>233,501</u>				<u>1,300,324</u>	<u>3,494,920</u>
Fund Balance								
Unreserved	370,980	952,441		3,196,887	883,555	1,164,272		6,568,135
Unreserved reported as non- major other purpose							1,644,273	1,644,273
Total Fund Balance	<u>370,980</u>	<u>942,441</u>		<u>3,196,887</u>	<u>883,555</u>	<u>1,164,272</u>	<u>1,644,273</u>	<u>8,212,408</u>
Total Liabilities and Fund Balance	<u>\$2,237,729</u>	<u>\$1,046,787</u>	<u>\$ 233,501</u>	<u>\$3,196,887</u>	<u>\$ 883,555</u>	<u>\$1,164,272</u>	<u>\$2,944,597</u>	<u>\$11,707,328</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

Fund Balances in Governmental Funds \$ 8,212,408

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	51,077,205
Receivables deferred in governmental fund financial statements	516,795
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(5,479,000)
Accrued interest	(51,043)
Compensated absences	(1,478,093)
Advances from CRIM	<u>(675,433)</u>
	<u>\$52,122,839</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	MAJOR FUNDS							TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUNDS	HUD BLOCK GRANT	\$3,817,000 LOAN FUND	BONDS FUND	SPECIAL COMMUNITIES TRUST FUND	OTHER GOVERNMENTAL FUNDS	
Revenues:								
Taxes:								
Property taxes	\$ 951,311	\$169,122						\$ 1,120,433
Municipal tax	584,490							584,490
Sales tax	616,870	400,194						1,017,064
Excise taxes	230,267							230,267
Grants and entitlements	7,315,652		\$408,123		\$ 1,618	\$1,949,011	\$3,310,235	12,984,639
Rental income	409,331							409,331
Licenses and permits	5,737							5,737
Interest	103,157	260						103,417
Other	208,883							208,883
	<u>10,425,698</u>	<u>569,576</u>	<u>408,123</u>		<u>1,618</u>	<u>1,949,011</u>	<u>3,310,235</u>	<u>16,664,261</u>
Total Revenues								
Expenditures:								
General administration	5,151,266						236,276	5,387,542
Public safety	692,443						127,709	820,152
Education and recreational	378,800						265,605	644,405
Public works and sanitation	2,300,948		408,123	\$467,110	584,766	2,340,706	1,481,345	7,582,998
Health and welfare	727,812						1,158,346	1,886,158
Public Relation	363,837							363,837
Planning and general services	521,270							521,270
Debt service:								
Principal		328,000						328,000
Interest		196,992						196,992
		<u>524,992</u>	<u>408,123</u>	<u>467,110</u>	<u>584,766</u>	<u>2,340,706</u>	<u>3,269,281</u>	<u>17,731,354</u>
Total expenditures	<u>10,136,376</u>							
				<u>(467,110)</u>	<u>(583,148)</u>	<u>(391,695)</u>	<u>40,954</u>	<u>(1,067,093)</u>
Excess (deficiency) of revenue over expenditures	<u>289,322</u>	<u>44,584</u>						

(continued)

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	MAJOR FUNDS							
	GENERAL FUND	DEBT SERVICE FUNDS	HUD BLOCK GRANT	LOAN FUNDS	BONDS FUND	SPECIAL COMMUNITIES TRUST FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess of Revenues over Expenditures	\$ 289,322	\$ 44,584	—	\$ (467,110)	\$ (583,148)	\$ (391,695)	\$ 40,954	\$ (1,067,093)
Other financing sources (uses):								
Operating transfer in	260	62,775						63,035
Operating transfer out	(62,515)	(260)						(63,035)
Total other financing sources	(62,515)	62,515						
Excess of revenues and other financing sources (under expenditures and other financing sources)	226,807	107,099		(467,110)	(583,148)	(391,695)	40,954	(1,067,093)
Fund balance beginning of year	144,173	845,342		3,663,997	1,466,703	1,555,967	1,603,319	9,279,501
Fund balance at end of year	<u>\$ 370,980</u>	<u>\$952,441</u>		<u>\$3,196,887</u>	<u>\$ 883,555</u>	<u>\$1,164,272</u>	<u>\$1,644,273</u>	<u>\$ 8,212,408</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances – total governmental funds \$(1,067,093)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 6,530,321

Governmental funds report principal payments on long-term debt as expenditures, whereas the principal payments reduce the long-term debt in the statement of net assets. 328,000

Changes in accrued expenses which do not require the use of current financial resources:

Interest	23,361
Compensating absences	(145,227)
Deferred revenues	(168,769)

Governmental funds report payments of other long-term debt as expenditures where as the payment reduces the long term is the obligate in the statement of net assets. 22,758

Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,865,320)

Changes in Net Assets of Governmental Activities \$ 3,658,031

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF FINANCIAL POSITION-PROPRIETARY FUND
JUNE 30, 2010

ASSETS

	BUSINESS TYPE ACTIVITIES RIO PLATA DEVELOPMENT
Current Assets:	
Cash	\$ 3,819
Accounts receivable:	
HUD	57,822
Other	<u>8,071</u>
	69,712
 Property and Equipment	 888,141
 Restricted deposits	 <u>1,045,656</u>
	 <u>\$2,003,509</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Current maturities of mortgage note	\$ 103,037
Accounts payable and accrued expenses	<u>125,183</u>
	<u>228,220</u>
Long-term liabilities:	
Deposits	14,138
Mortgage note, net of current maturities	<u>871,377</u>
	<u>885,515</u>
	<u>1,113,735</u>
 Net assets	 <u>889,774</u>
 Total liabilities and net assets	 <u>\$2,003,509</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010**

	BUSINESS TYPE ACTIVITIES RIO PLATA DEVELOPMENT
Revenues:	
Rent	\$565,487
Financial	2,924
Others	<u>850</u>
Total revenues	<u>569,261</u>
Expenses:	
Administrative	146,993
Utilities	13,631
Operating Maintenance	137,693
Taxes and insurance	37,007
Depreciation	91,959
Interest	<u>83,406</u>
Total Expenses	<u>510,689</u>
Change in net assets	58,572
Project net assets, beginning of year	<u>831,202</u>
Project net assets, and year	<u>\$889,774</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND**

FOR THE YEAR ENDED JUNE 30, 2010

	BUSINESS TYPE ACTIVITIES RIO PLATA DEVELOPMENT
Cash flows from operating activities:	
Receipts:	
Rental receipts	\$ 505,724
Interest receipts	2,924
Other operating receipts	<u>850</u>
Total receipts	<u>509,498</u>
Disbursements:	
Administrative	29,498
Management fee	46,358
Utilities	13,931
Salaries and wages	55,402
Operating and maintenance	107,436
Property insurance	12,071
Miscellaneous taxes and insurance	24,935
Interest on first mortgage	<u>83,406</u>
Total disbursements	<u>372,737</u>
Net cash provided by operating activities	<u>136,761</u>
Cash flows from investing activities:	
Net deposits to the reserve for replacement account	(33,049)
Net purchase of fixed assets	<u>(9,439)</u>
Net cash used in investing activities	<u>\$ (42,488)</u>

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	BUSINESS TYPE ACTIVITIES RIO PLATA DEVELOPMENT
Cash flows from operating activities:	
Principal payments- first mortgage	\$ (91,994)
Net cash used in financing activities	<u>(91,994)</u>
Net increase in cash	2,279
Cash at beginning of year	<u>1,540</u>
Cash at end of year	<u>\$ 3,819</u>
 Reconciliation of change in total net assets from operation to net cash provided by operating activities:	
Change in total net assets from operations	\$ 58,572
 Adjustment to reconcile change in total net assets form operations to net cash provided by operating activities:	
Depreciation expense	91,959
(Increase) decrease in current assets and increase (decrease) in current liabilities:	
Tenant accounts receivable	(59,763)
Cash restricted for tenant security deposits	173
Accounts payable	357
Accrued liabilities	45,636
Tenant security deposits held in trust	<u>(173)</u>
 Net cash provided by operating activities	 <u>\$ 136,761</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

1. ORGANIZATION

The Municipality of Comerío (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has twelve members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Comerío, this includes various services including police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality Legislative Body through the budgetary process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest and related cost.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3) HUD Block Grant Fund

This fund was created for the accountability of the State Community Block Grant of the US Housing Development Department.

4) \$3,817,000 fund loan

The fund accounts for proceed and expenditures of a special loan for the development of capital projects.

5) Bonds fund

This is a special fund created for the accountability of a grant provided by the Commonwealth of Puerto Rico from issuance of bonds which proceeds are internal

6) Special communities trust fund

This is a special fund created for the accountability of a grant which proceeds are intended to be used for infrastructure projects in special communities among the Municipality.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Assets and the Statement of Activities, both government and business like activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfunds receivables and payables within the governmental activities are eliminated in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality elected to no capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

Reservation of fund balance

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

1) Debt/ service

Represents net assets available to finance future debt service payments.

2) Restricted assets:

Restricted assets include cash and investment of the business-type activities that are legally restricted as to his used. The restricted assets are related to replacement reserve, residual receipts reserve and tenants deposit held in trust.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reservation of fund balance (continued)

3) State and federal programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2010 amounted to \$183,189. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$188,415 for workers compensation insurance covering all municipal employees.

Post Employment Benefits

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of it's retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement while working for the Municipality. For the fiscal year ended June 30, 2010, post employment benefits to retirees amounted to \$35,105. These benefits are recorded as expenditures in the general fund when reported by the retirement plan.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Deposits and investments

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

Subsequent Events

Management has evaluated subsequent events through November 12, 2010, the date the financial statements were evaluated to be issued.

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on esteemed values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

3. PROPERTY TAX (CONTINUED)

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2010 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15 1999. As of June 30, 2010 the amount due to CRIM amounting to \$675,433 is presented as other long-term debt (see Note 10).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

3. PROPERTY TAX (CONTINUED)

Total property tax receivable, net of an allowance for uncollectible accounts of \$4,120,473, amounted to \$616,416 at June 30, 2010. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2010:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$3,741,041	\$835,497	\$4,576,538
Less allowance for uncollectible accounts	<u>3,304,468</u>	<u>737,996</u>	<u>4,042,465</u>
Net property taxes receivable	<u>\$3,436,573</u>	<u>\$ 97,501</u>	<u>\$ 534,074</u>
Deferred (unavailable property) tax revenues in GFFS	<u>\$ 422,449</u>	<u>\$ 94,346</u>	<u>\$ 516,795</u>

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2010, \$378,267 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets.

5. SALE TAX

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

The Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling program, capital improvements and health and public safety costs. Amount collected by the Commonwealth will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

5. SALE TAX (continued)

- a) .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b) .2% of the 5% will be deposited in a "Municipal Redemption Fund" to paid loans to municipalities subject to restrictions imposed by the Act and,
- c) .1% of the .5 will be deposited in a "Municipal Improvement Fund" to finance capital improvement project; these fund will be distributed based on legislation form the Commonwealth's legislature.

The Municipal Sale Tax is specifically imposed over all sale transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax effective November 1, 2006. Individual, organizations and entities subject to collect the municipal sales and use tax must file a tax return to Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sale and use tax resources. Resources are recorded in the general fund of the Municipality.

6. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

7. DEFERRED REVENUE

Deferred revenue consist o the following

Deferred revenue in the general fund related to the municipal license tax collected in the fiscal year 2009-2010 that will be earned in fiscal year 2010-2011.	\$ 378,267		
The deferred revenue presented in other governmental funds is the portion of federal grants received for which qualifying expenditures have not been incurred.	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right;"><u>244,343</u></td></tr> <tr><td style="text-align: right;">622,620</td></tr> </table>	<u>244,343</u>	622,620
<u>244,343</u>			
622,620			
Property tax receivable but not available in the government fund financial statements.	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right;"><u>516,795</u></td></tr> </table>	<u>516,795</u>	
<u>516,795</u>			
	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right;"><u>\$1,139,405</u></td></tr> </table>	<u>\$1,139,405</u>	
<u>\$1,139,405</u>			

8. COMMITMENTS AND CONTINGENCIES

At June 30, 2010, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

9. RESTRICTED DEPOSIT

Restricted cash in the business type activities included restricted deposits as follows:

Replacement reserve	\$ 995,323	
Security deposits	14,138	
Residual receipts	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right;"><u>36,195</u></td></tr> </table>	<u>36,195</u>
<u>36,195</u>		
	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right;"><u>\$1,045,656</u></td></tr> </table>	<u>\$1,045,656</u>
<u>\$1,045,656</u>		

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

9. RESTRICTED DEPOSIT (CONTINUED)

A. Replacement Reserve

The project is required under the Project Rental Assistance Contract (PRAC) and federal regulations, to set aside amounts to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations. Funds may be drawn from the reserve and used only in accordance with HUD guidelines and with approval of, or as directed by, HUD.

B. Security Deposits

The project is required, under federal regulations, to set aside, at the time of the initial execution of the lease, the tenant's security deposit and its accumulated interest. The project must refund to the tenant, the full amount of the tenant's security deposit, provided the tenant does not owe any amount under the lease. The Project may use the tenant's security deposit balance as a reimbursement for any unpaid amounts the tenant owes under the lease.

C. Residual Receipts

The Project is required, under federal regulations and PRAC, to set aside the surplus project funds in an interest-bearing residual receipts account when the project funds are more than needed for the operation of the project, to pay operating expenses, and to make the required deposits to the replacement reserve. Withdrawals from this account will be made only with the approval of HUD and for project purposes, including the reduction of project rental assistance payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government	Balance <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2010</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,887,905			\$ 6,887,905
Construction progress	<u>2,884,654</u>	<u>\$ 4,548,541</u>	<u>\$(350,243)</u>	<u>7,062,952</u>
Total capital assets not being depreciated	<u>9,772,559</u>	<u>4,548,541</u>	<u>(350,243)</u>	<u>13,970,857</u>
Capital assets being depreciated:				
Buildings	20,329,620	292,100		20,621,720
Equipment	1,669,346	94,068		1,763,414
Infrastructure	2,098,078	852,045		2,950,123
Infrastructure equipment	9,618,212	705,617		10,323,829
Buildings improvements	9,532,522	332,282		9,864,804
Furnishing	458,074	24,782		482,857
Work of art	1,580			1,580
Computer	262,525	31,129		293,654
Vehicles	<u>3,314,719</u>	<u> </u>	<u> </u>	<u>3,314,719</u>
Total capital assets being depreciated	<u>47,284,676</u>	<u>2,332,023</u>	<u> </u>	<u>49,616,699</u>
Less accumulated depreciation for:				
Buildings	(3,780,765)	(510,795)		(4,291,560)
Equipment	(1,221,041)	(181,853)		(1,402,894)
Infrastructure	(234,223)	(64,463)		(298,686)
Infrastructure equipment	(953,802)	(682,527)		(1,636,329)
Buildings improvements	(806,611)	(241,119)		(1,047,730)
Furnishing	(331,117)	(49,078)		(380,195)
Work of art	(1,580)			(1,580)
Computer	(224,169)	(29,636)		(253,805)
Vehicles	<u>(3,091,723)</u>	<u>(105,849)</u>	<u> </u>	<u>(3,197,572)</u>
	<u>(10,645,031)</u>	<u>(1,865,320)</u>	<u> </u>	<u>(12,510,351)</u>
Total depreciable capital assets, net	<u>36,639,645</u>	<u>466,703</u>	<u> </u>	<u>37,106,348</u>
Governmental activities capital assets net	<u>\$ 46,412,204</u>	<u>\$ 5,015,244</u>	<u>\$(350,243)</u>	<u>\$ 51,077,205</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

10. CAPITAL ASSETS (CONTINUED)

<u>Primary Government</u>	<u>Balance June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2010</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	\$ 134,360	\$ _____	\$ _____	\$ 134,360
Capital assets being depreciated:				
Building and improvements	3,831,324	9,439		3,840,763
Office furniture and equipment	<u>188,321</u>	_____	_____	<u>188,321</u>
	<u>4,019,645</u>	<u>9,439</u>	_____	<u>4,029,084</u>
Less accumulated depreciation:				
Building and improvements	(3,007,105)	(84,237)		(2,091,342)
Office furniture and equipment	<u>(176,239)</u>	<u>(7,722)</u>	_____	<u>(183,961)</u>
	<u>(3,183,344)</u>	<u>(91,959)</u>	_____	<u>(3,275,303)</u>
Total depreciation, capital, assets net	<u>836,301</u>	<u>(82,520)</u>	_____	<u>753,781</u>
Business activities capital assets, net	<u>\$ 970,661</u>	<u>\$ 82,520</u>	<u>\$ _____</u>	<u>\$ 888,141</u>

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General administration	\$ 484,177	
Public safety	36,907	
Public works	1,095,120	
Education, culture and recreation	245,274	
Health and welfare	3,842	
Housing	_____	<u>\$91,959</u>
Total depreciation expense	<u>\$1,865,320</u>	<u>\$91,959</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

11. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2010 was as follows:

Primary government: Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Bonds and notes payable	\$5,807,000		\$328,000	\$5,479,000	\$ 219,000
Advance from CRIM	698,191		22,758	675,433	20,507
Compensated absences	<u>1,332,866</u>	<u>\$145,227</u>	<u> </u>	<u>1,478,093</u>	<u>1,039,507</u>
	7,838,057	145,227	350,758	7,632,526	1,039,507
Business-type activities:					
Mortgage payable	<u>1,066,408</u>	<u> </u>	<u>91,994</u>	<u>974,414</u>	<u>103,037</u>
Total	<u>\$8,904,465</u>	<u>\$145,227</u>	<u>\$442,752</u>	<u>\$8,606,940</u>	<u>\$1,142,544</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

11. LONG-TERM DEBT (CONTINUED)

Governmental activities:

Bonds and notes payable:

\$342,000 Municipal public improvement bonds of 1993 payable in annual principal installments of \$18,000 to \$26,000 through January 1, 2016 plus interest at 5.75% \$ 134,000

\$95,000 public improvement bonds of 1993 payable in annual principal installments ranging from \$5,000 to \$7,000 through January 1, 2016, plus interest at 5% 36,000

\$505,000 municipal general obligation bonds of 2003 payable in annual principal installments ranging from \$15,000 to \$40,000 through Jul1, 2027, plus interest at 5% to 6.5% 430,000

\$1,010,000 notes of 2005 payable in an annual principal installment of \$25,000 to \$70,000 through July 1, 2029, plus Interest at 5% 870,000

\$3,817,000 municipal special obligation note serial of 2008 payable in an annual installments regarding from \$90,000 to \$342,000 in July 1, 2028 plus interest at 5.4% 3,630,000

\$200,000 municipal general obligation notes serial of 2004 payable in annual principal installments ranging from \$28,000 to \$33,000 through January 1, 2013, plus interest at 4.50%. 94,000

\$100,000 municipal general obligation note of 2007 payable in annual installments ranging from \$13,000 to \$16,000 though January 1, 2015 plus notes at 4.13%. 74,000

\$284,000 municipal general obligation note payable in monthly installments ranging from \$39,000 to \$46,000 though January 1, 2015 plus interest of 4.13%. 211,000

5,479,000

Business-type activities:

Mortgage note payable in monthly installments of \$15,513 including interest at 9% including subsidy interest of 8% through 2017. The note is secured by a residential building. 474,417

\$6,453,414

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

11. LONG-TERM DEBT (CONTINUED)

Advances from CRIM

These amounts represent the balance owed to CRIM at June 30, 2010 as described in Note 3 and is payable in semiannual aggregated installments through July 2032 including interest at 6.1%.

The annual debt service requirements to maturity long-term debt as of June 30, 2010 are as follows:

Governmental-Type Activities

<u>Bonds and Notes Payable</u> <u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$219,000	\$ 203,956
2012	260,000	351,619
2013	275,000	336,245
2014	253,000	319,962
2015	271,000	304,282
2016-2020	1,125,000	1,286,753
2021-2025	1,516,000	843,864
2023-2030	<u>1,657,000</u>	<u>242,622</u>
	<u>\$5,576,000</u>	<u>\$3,889,303</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

11. LONG-TERM DEBT (CONTINUED)

Due to CRIM:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 7,796	\$ 20,507
2012	16,293	40,312
2013	17,276	39,328
2014	18,319	38,285
2015	19,425	37,179
2016-2020	116,197	166,828
2021-2025	155,763	127,263
2026-2030	208,800	74,225
2031	<u>129,714</u>	<u>11,798</u>
	<u>\$689,583</u>	<u>\$555,725</u>

**Business-type activities
Mortgage note payable:**

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$103,037	\$ 74,218
2012	112,318	65,641
2013	122,881	56,352
2014	134,437	46,292
2015	142,164	35,396
2016-2018	<u>359,577</u>	<u>35,000</u>
	<u>\$974,414</u>	<u>\$312,899</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

12. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

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

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275% of the participant's gross salary.

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

12. RETIREMENT SYSTEM (CONTINUED)

Defined Contribution Plan

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Bank is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2010 amounted to approximately \$245,793 and \$279,100, respectively. This amount represented 100% of the required contribution for the year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Retirement System.

13. CONTINGENCIES

At June 30, 2010, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2010

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AT BUDGETARY BASIS</u>	
Revenues:				
Taxes:				
Property taxes	\$ 854,155	\$ 854,155	\$ 854,155	
Municipal tax	552,397	552,397	584,490	\$ 32,093
Sales tax	532,850	532,850	577,682	44,832
Construction excise taxes	387,000	387,000	230,267	(156,733)
Grants and entitlements	6,809,185	6,809,185	6,800,437	(8,748)
Rental income	355,793	355,793	409,331	53,538
Licenses and permits	11,000	11,000	5,737	(5,263)
Interest	78,000	78,000	103,418	25,418
Other	<u>508,451</u>	<u>508,451</u>	<u>45,341</u>	<u>(463,110)</u>
 Total revenues	 <u>10,088,831</u>	 <u>10,088,831</u>	 <u>9,610,858</u>	 <u>(477,973)</u>
Expenditures:				
General administration	4,864,412	5,045,473	4,993,740	51,733
Public safety	724,980	695,785	692,443	3,342
Education, culture and recreational	397,400	395,424	378,800	16,624
Public works and sanitation	2,427,157	2,307,682	2,300,948	6,734
Health and welfare	774,353	754,691	727,812	26,879
Public relation	360,563	365,573	363,837	1,736
Planning and general service	<u>539,966</u>	<u>524,203</u>	<u>521,270</u>	<u>2,933</u>
 Total expenditures	 <u>10,088,831</u>	 <u>10,088,831</u>	 <u>9,978,850</u>	 <u>109,981</u>
 Excess of revenue over expenditure	 <u>\$</u>	 <u>\$</u>	 <u>\$ (367,992)</u>	 <u>\$(367,992)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2010

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON (CONTINUED)
JUNE 30, 2010**

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the general fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Revenue and expenses for generally accepted accounting principles (GAAP) basis	\$10,425,698	\$10,136,376
Transfer in included as revenues in budgetary basis	260	
Transfer out included as expenditures in budgetary basis		62,515
Other adjustment to adjust revenues from budgetary basic to modified accrual basis	(815,100)	
Expenses per GAPP did not record in budgetary basis	<u> </u>	<u>(220,041)</u>
Revenue and expenses per budgetary basis	<u>\$ 9,610,858</u>	<u>\$ 9,978,850</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

	<u>NUMBER</u>	<u>EXPENDITURES</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$ 408,123
Puerto Rico Public Housing Administration:		
Public and Indian Housing	14.850	296,441
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	<u>596,945</u>
		<u>1,301,509</u>
<u>US Department of Justice</u>		
Direct program:		
Edward Byrne Memorial Justice Assistance Grant Program (COPS)		
	16.738	12,663
Crime Victim Assistance Program		
	16.575	<u>24,763</u>
		<u>37,426</u>
<u>US Department of Agriculture</u>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	<u>11,174</u>
<u>US Department of Health and Human Services</u>		
Passed through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	243,576
ARRA –Child Care and Development Bloc Grant	93.713	<u>5,836</u>
		<u>249,412</u>
<u>US Department of Transportation</u>		
Passed through:		
PR Traffic Safety Commission:		
State and Community Highway Safety	20.600	<u>8,960</u>
		<u>\$1,608,481</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Comerío and is presented on the modify basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments and Non profit organizations.

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

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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**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 Legislative Body
Municipality of Comerío
Comerío, Puerto Rico**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of Comerío, Puerto Rico, as of and for the year ended June 30, 2010, which collectively comprise the Municipality of Comerío, Puerto Rico's basic financial statements and have issued our report thereon dated November 12, 2010. Other auditors audited the financial statements of Rio Plata Development, as described in our report on Municipality of Comerío's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Comerío, Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Comerío, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Comerío, Puerto Rico'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 a 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED):

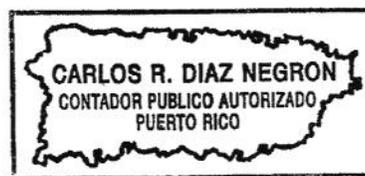
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Comerío, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Municipality of Comerío, Puerto Rico, in a separate letter dated November 12, 2010.

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



November 12, 2010
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2013

The stamp No. **2564404** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, Puerto Rico**

Compliance

We have audited the compliance of **Municipality of Comerío, Puerto Rico**, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Municipalities of Comerío, Puerto Rico'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 Comerío, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Comerío, Puerto Rico's compliance based on our audit. Municipality of Comerío, Puerto Rico's financial statements include the operations of Río Plata Project which expensed \$1,393,144 in federal award which are not included in the schedule during the year ended June 30, 2010. Our audit, described below did not include the operations of Río Plata Project because the Project's management engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 Comerío, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Comerío, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENTS (CONTINUED)

As described in item 2-10 in the accompanying schedule of findings and questioned costs, Municipality of Comerío, Puerto Rico, did not comply with requirement regarding Procurement and Suspension and Debarment that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, Municipality of Comerío, Puerto Rico, to comply with the requirements applicable to that program.

In our opinion, except for the non compliance described in the preceding paragraph, Municipality of Comerío, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 01-10, 03-10 and 04-10.

Internal Control Over Compliance

Management of Municipality of Comerío, Puerto Rico, 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 Comerío, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Municipality of Comerío, Puerto Rico's internal control over compliance.

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questions costs as items 2-10 to be material weaknesses.

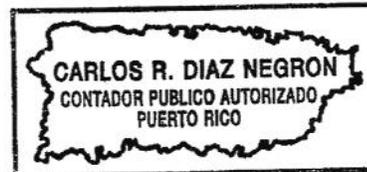
REPORT ON COMPLIANCE WITH REQUIREMENTS

Internal Control Over Compliance

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questions cost as items 1-10, 3-10 and 4-10.

Municipality of Comerío, Puerto Rico'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 of Comerío, Puerto Rico's responses and, accordingly, we express no opinion on the responses.

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



November 12, 2010
Aguas Buenas, Puerto Rico

License No. 1339
December 1, 2013

The Stamp No. **2564405** of the Puerto Rico Expires Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ___yes _X_no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? ___yes _X_no

Noncompliance material to financial statement noted? ___yes _X_no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes _X_no
- Significant deficiency (ies) identified that are not considered to be material weakness(es) _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 Circular A-133 _X.yes ___no

Identification of major programs:

CFA Number(s)

Name of Federal Program Cluster

14.871
14.228

Section 8 – Housing Choice Voucher
Community Development Block Grant/
State's Program.
Public and Indian Housing

14.850

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

\$300,000

Audit qualified as low-risk audited? ___yes _X_no

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II - FINANCIAL STATEMENTS FINDINGS

NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 1-10 – Davis-Bacon Act

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Davis-Bacon Act

Category:

Compliance

Condition:

As part of our audit procedures we examined 5 disbursements to test the compliance with the Davis-Bacon Act for Public Assistance Grants program. In two disbursements amounting \$87,828 the contracts do not state the requirement that the contractor comply with requirements of the Davis-Bacon Act.

Criteria:

40 USC 3141–3144, 3146, and 3147 require that when required by the Davis-Bacon Act, the Department of Labor’s (DOL) government-wide implementation of the Davis-Bacon Act, or by federal program legislation, 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. Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, “Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction”). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347 which includes the required statement of compliance (OMB No. 1215-0149).

Effect:

The Municipality could be exposed to administrative action by the grantor.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 1-10 – Davis-Bacon Act (Continued)

Questioned cost:

None

Recommendation:

We recommend that the Municipality establishes an adequate internal control system to ascertain compliance with the Davis-Bacon Act.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 2-10 – Procurement and Suspension and Debarment

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Procurement and Suspension and Debarment

Category:

Compliance

Condition:

As part of our audit procedures we examined 5 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Grant program. In 3 of the 5 disbursements examined amounting \$390,147.32, the Municipality did not comply with the Suspension and Debarment requirement and in one disbursement amounting to \$35,887.46 did not comply with the procurement requirement.

Criteria:

Procurement:

State, and governmental subrecipients of states, should use the same state policies and procedures used for procurement from non-federal funds. They also should ensure that every purchase order or other contract includes any clauses required by federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments that are not subrecipients of states should use their own procurement procedures provided they conform to applicable federal law and regulations and standards identified in the A-102 Common Rule (Gov. Doc. No. 10).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 2-10 – Procurement and Suspension and Debarment (Continued):

Suspension and Debarment:

2 CFR part 180 states that non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. CFR Section 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost:

\$35,887.46

Recommendation:

We recommend that the Municipality establishes an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 3-10 – Depository Agreements – Public Housing

Federal Program

CFDA – 14.850 Public and Indian Housing

Compliance requirement:

Special Test and Provisions – Depository Agreements

Category:

Compliance

Condition:

The Municipality does not maintain depository agreements with their financial institution in the form required by HUD.

Criteria:

24 CFR Section 982.156 required that:

- a) Unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements.
- b) The PHA may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.
- c) The PHA must enter into an agreement with the depository in the form required by HUD.
- d) (1) If required under written freeze notice form HUD to the depository may not permit any withdrawal by the PHA of funds held under the depository agreement unless expressly authorized by written notice form HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD.

(2) HUD must send the PHA a copy of the freeze notice form HUD to the depository. (Approved by the Office of Management and Budget under control number 25770169 [60 FR 34695, July 3, 1995, as amended at 60 FR 45661, Sept. 1, 1995].

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 3-10 – Depository Agreements – Public Housing (Continued)

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost:

None

Recommendation:

We recommend that the Municipality established an adequate internal control system to ascertain compliance with the Special Test and Provisions – Depository Agreements requirement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 4-10 – Depository Agreements - Section 8

Federal Program

CFDA – 14.871 Section 8 Housing Choice Voucher

Compliance requirement:

Special Test and Provisions – Depository Agreements

Category:

Compliance

Condition:

The Municipality does not maintain depository agreements with their financial institution in the form required by HUD.

Criteria:

24 CFR Section 982.156 required that:

- a) Unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements.
- b) The PHA may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.
- c) The PHA must enter into an agreement with the depository in the form required by HUD.
- d) (1) If required under written freeze notice form HUD to the depository may not permit any withdrawal by the PHA of funds held under the depository agreement unless expressly authorized by written notice form HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD.

(2) HUD must send the PHA a copy of the freeze notice form HUD to the depository. (Approved by the Office of Management and Budget under control number 25770169 [60 FR 34695, July 3, 1995, as amended at 60 FR 45661, Sept. 1, 1995].