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

MUNICIPIO DE COMERIO
AUDITORÍA 2010-2011

30 DE JUNIO DE 2011

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2011

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balance	15-16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Statement of Financial Position – Property Fund	18
Statement of Activities – Property Fund	19
Statement of Cash Flows – Property Fund	20-21
Notes to the Financial Statements	22-41
REQUIRED SUPPLEMENTARY INFORMATION:	42
Schedule of Budgetary Comparison	43
Notes to Schedule of Budgetary Comparison	44-45
Schedule of Expenditures of Federal Awards	46-47
Notes to Schedule of Expenditure of Federal Awards	48
Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	49-51
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular-A-133	52-55
SCHEDULE OF FINDINGS AND QUESTIONES COSTS	56
Section I. - Summary of Auditor's Results	57
Section II. - Financial Statements Findings	58
Section III. - Federal Awards Findings and Questioned Costs	59-62
EXHIBIT I – Corrective Action Plan	63-65

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Carlos R. Díaz Negrón

Certified Public Accountant

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

PO BOX 408, 44 RAFAEL LASA ST., AGUAS BUENAS, PR 00703 TEL. 787-732-8020 FAX: 787-732-0685, E-MAIL: oficinacarlosdiazcpa@yahoo.com

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, 2011 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, 2011, 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, 2011, 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.

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

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.

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

January 17, 2012
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013

The Stamp No. **E3057** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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, 2011, with total assets of $63,418,589, total liabilities of $11,224,228, and total net assets of $52,194,361. Municipality net assets decreased $818,252 in comparison with June 30, 2010 balance of $53,012,613. 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, 2011.

Condensed Statement of Net Assets

	2010	2011
Assets		
Capital Assets	$51,965,346	$54,709,111
Other Assets	11,478,912	8,709,478
	63,444,258	63,418,589
Liabilities and NET Assets		
Long-Term Debt	8,606,940	9,332,672
Other Liabilities	1,824,705	1,891,556
	10,431,645	11,224,228
Invested in Capital Assets	48,708,819	49,381,627
Restricted for Debt Service	1,046,787	1,496,034
Capital Projects	6,391,897	4,062,944
Replacement and Others	1,142080	791,990
Unrestricted	(4,276,970)	(3,538,234)
Total Net Assets	$53,012,613	$52,194,361

Condensed Statement of Net Assets (CONTINUED)

	2010	2011
Revenues		
Program Revenues:		
Charges for Services	$ 735,825	$ 718,1577
Operating Grants	1,981,193	2,165,9744
Capital Grants	3,494,118	1,248,0333
General Revenue:		
Taxes:		
Property Tax	951,664	1,396,3244
Municipal Tax	584,490	626,7377
Sale Tax	1,017,064	872,5544
Construction Excise Taxes	230,267	244,8822
Grants and Entitlements	7,509,328	7,548,9266
Interest, Rents and Others	560,804	433,3466
	17,064,753	15,254,9333
Expenditures		
General Administration	5,994,188	6,429,2222
Public Safety	857,059	1,020,4088
Education, Culture and Recreational	889,679	990,1600
Public Works and Sanitation	2,147,797	3,847,4088
Health and Welfare	1,890,000	2,254,6000
Public Relation	363,837	367,8433
Planning and General Services	521,270	521,9355
Interest	173,631	118,1022
Housing	427,283	452,8722
Housing Interest	83,406	70,6355
	13,348,150	16,073,1855
Changes in Net Assets	3,716,603	(818,252)
Net Assets at beginning	49,296,010	53,012,6133
Net Assets at end	$53,012,613	$52,194,3611

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, 2011 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.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2011. 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 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.

Fund Financial Statements (Continued)

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, 2011. 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 3.90% of total assets while cash with fiscal agent represents 5.26% of it. Capital assets amount to 86.27% of total assets. The other 4.57% represents receivables, and restricted cash.

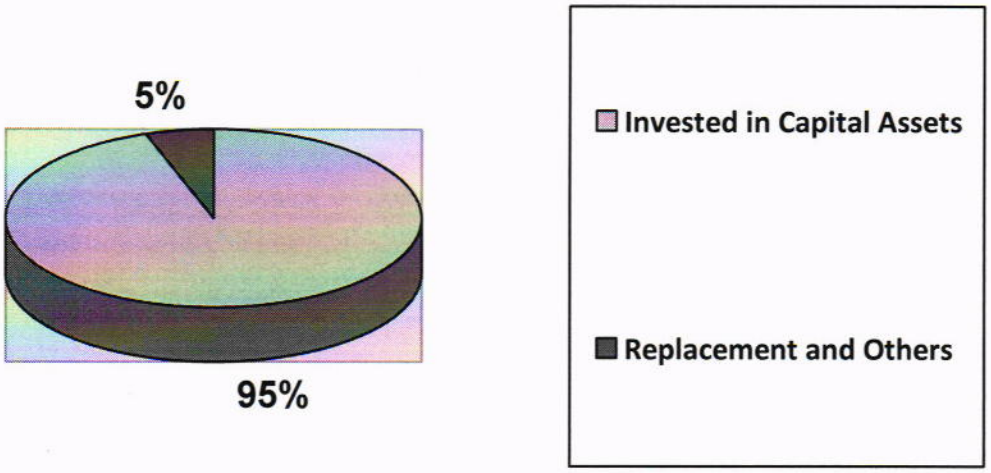
Statement of Net Assets (Continued)

Municipality's cash and cash equivalents changed from $2,738,677 at June 30, 2010 to $2,476,022 at June 30, 2011. Capital Assets increased from $51,965,346 to $54,709,111 for the same period.

Current liabilities consists primary of accounts payable and accrued expenses which represent 16.85% of total liabilities. Long term debt represents 83.15% of total liabilities.

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

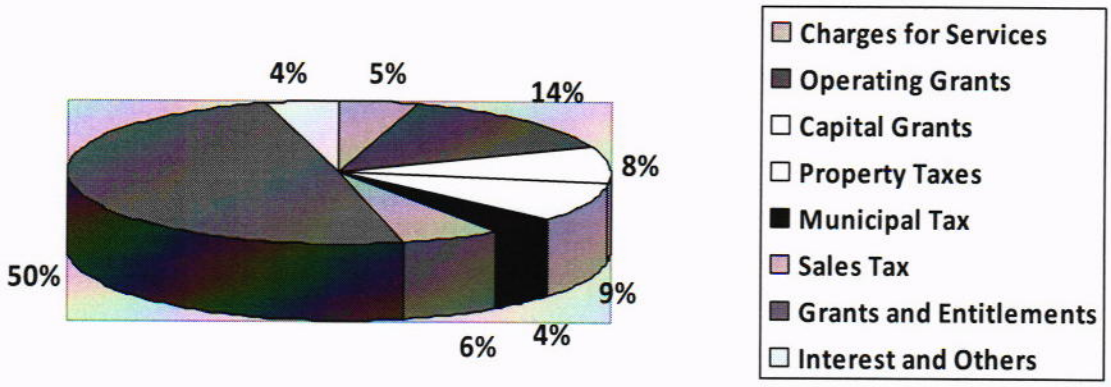
Net Assets

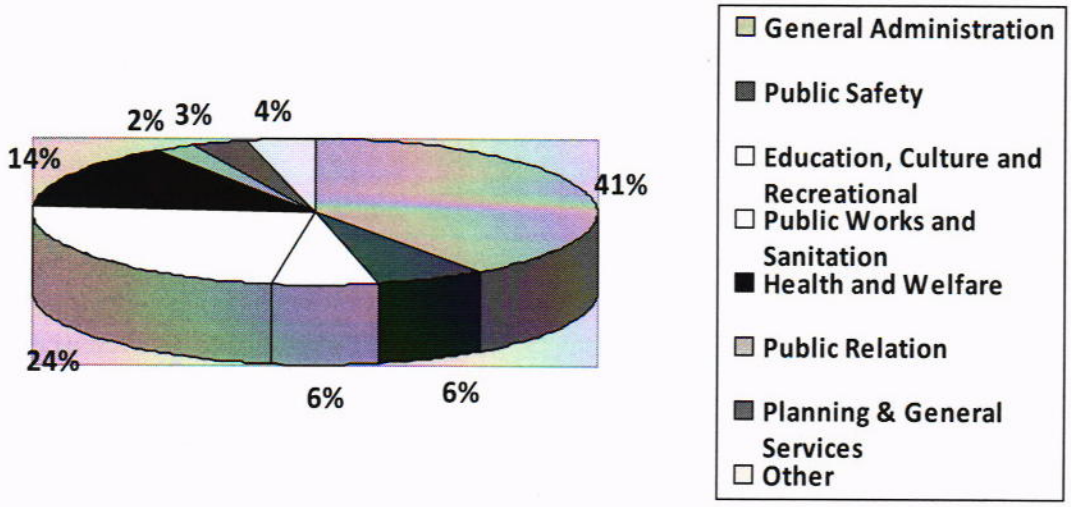


As of June 30, 2011, net assets amounted to $52,194,361. Net assets invested in capital assets amounted to $49,381,627 (95%). Replacement and Others net assets amounted to $2,812,734 (5%).

Statement of Net Assets (Continued)

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





COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011

	PRIMARY GOVERNMENT		
ASSETS	**GOVERNMENTAL ACTIVITIES**	**BUSINESS –TYPE ACTIVITIES**	**TOTAL**
Cash and cash equivalents	$ 2,475,209	$ 813	$ 2,476,022
Cash with fiscal agent	3,337,478		3,337,478
Investment in certificates of deposit			
Accounts receivable:			
Property tax	713,165		713,165
Sale tax	66,925		66,925
Other agencies	1,272,590	39,693	1,312,283
Others		11,615	11,615
Restricted cash		791,990	791,990
Capital assets, net	53,591,715	1,117,396	54,709,111
Total Assets	61,457,082	1,961,507	63,418,589
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	1,060,908	123,303	1,184,211
Deferred revenue	513,651		513,651
Deposits	76,172	13,699	89,871
Due to other agencies	103,823		103,823
Long-term debt:			
Due within one year	1,200,587	112,318	1,312,905
Due in more than one year	7,262,481	757,286	8,019,767
Total Liabilities	10,217,622	1,006,606	11,224,228
Invested in capital assets, net of related liabilities	49,381,627		49,381,627
Restricted for:			
Debt service	1,496,034		1,496,034
Other provided by grantor	4,062,944		4,062,944
Replacements and other		791,990	791,990
Unrestricted	(3,701,145)	162,911	(3,538,234)
Total Net Assets	$51,239,460	$ 954,901	$52,194,361

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, 2011

		PROGRAM REVENUES			
FUNCTIONS AND PROGRAMS	**EXPENSES**	**CHARGE FOR SERVICES**	**OPERATING GRANTS AND CONTRIBUTIONS**	**CAPITAL GRANTS AND CONTRIBUTIONS**	**NET (EXPENSE)/ REVENUE**
Governmental activities:					
General administration	$ (6,429,222)		$ 118,323		$ (6,310,899)
Public safety	(1,020,408)		350,826		(669,582)
Education, culture and recreational	(990,160)	$ 2,672	374,190		(613,298)
Public works and sanitation	(3,847,408)			$1,248,033	(2,599,375)
Health and welfare	(2,254,600)	130,526	1,322,635		(801,439)
Public relations	(367,843)				(367,843)
Planning and general service	(521,935)				(521,935)
Interest	(118,102)				(118,102)
Total governmental activities	(15,549,678)	133,198	2,165,974	1,248,033	(12,002,473)
Business type-activities:					
Housing	(452,872)	584,959			132,087
Interest	(70,635)				(70,635)
	(523,507)	584,959			61,452
Total	$(16,073,185)	$718,157	$2,165,974	$1,248,033	$(11,941,021)

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (expense)/revenue	$(12,002,473)	$ 61,452	$(11,941,021)
General revenue:			
Taxes:			
Property taxes	1,396,324		1,396,324
Municipal tax	626,737		626,737
Sale tax	872,554		872,554
Construction excise tax	244,882		244,882
Grants and entitlements	7,548,926		7,548,926
Licenses and permits	9,795		9,795
Interest	85,534	3,675	89,209
Rent	243,256		243,256
Other	91,086		91,086
Total general revenues	11,119,094	3,675	11,122,769
Changes in net assets	(883,379)	65,127	(818,252)
Net assets at beginning	52,122,839	889,774	53,012,613
Net assets at end	$ 51,239,460	$954,901	$ 52,194,361

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, 2011

	GENERAL FUND	DEBT SERVICE FUNDS	$3,817,000 LOAN FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:					
Cash in bank	$ 524,902			$1,450,307	$1,975,209
Cash with fiscal agent		$1,341,944	$1,779,477	216,057	3,337,478
Investment in saving certificates				500,000	500,000
Receivables:					
Property taxes	581,334	131,831			713,165
Sale tax	44,666	22,259			66,925
Due from other governmental agencies	79,309			1,193,281	1,272,590
Due from other funds	831,152			292,639	1,123,791
Total Assets	$2,061,363	$1,496,034	$1,779,477	$3,652,284	$8,989,158
Liabilities:					
Accounts payable and accrued expenses	$ 657,810			$ 338,783	$ 996,593
Deferred revenues	881,979	$126,676		198,882	1,207,537
Deposits	76,172				76,172
Due to other fund	292,639			831,152	1,123,791
Due to other agencies	103,823				103,823
Total Liabilities	2,012,423	126,676		1,368,817	3,507,916
Fund Balance					
Restricted		1,369,358	$1,779,477	2,283,467	5,481,242
Unreserved reported as non- major					
Unassigned	48,940				48,940
Total Fund Balance	48,940	1,369,358	1,779,477	2,283,467	5,481,242
Total Liabilities and Fund Balance	$2,061,363	$1,496,034	$1,779,477	$3,652,284	$8,989,158

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, 2011

Fund Balances in Governmental Funds	$ 5,481,242
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.	53,591,715
Receivables deferred in governmental fund financial statements	693,886
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(5,992,000)
Accrued interest	(64,315)
Compensated absences	(1,810,677)
Advances from CRIM	(660,391)
	$51,239,460

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, 2011

	MAJOR FUNDS				
	GENERAL FUND	DEBT SERVICE FUNDS	$3,817,000 LOAN FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property taxes	$ 895,695	$323,538			$ 1,219,233
Municipal tax	626,737				626,737
Sales tax	581,307	291,247			872,554
Excise taxes	244,882				244,882
Grants and entitlements	7,415,727			$ 3,547,206	10,962,933
Rental income	373,782				373,782
Licenses and permits	9,795				9,795
Interest	85,230	314			85,534
Other	93,758				93,758
Total Revenues	10,326,903	615,099		3,547,206	14,489,208
Expenditures:					
General administration	5,524,244			128,358	5,652,602
Public safety	710,638			262,537	973,175
Education and recreational	375,558			365,725	741,283
Public works and sanitation	2,342,966		$ 1,417,410	3,361,851	7,122,227
Health and welfare	747,111			1,502,368	2,249,479
Public Relation	367,843				367,843
Planning and general services	521,935				521,935
Debt service:					
Principal		152,000			152,000
Interest		104,830			104,830
Total expenditures	10,590,295	256,830	1,417,410	5,620,839	17,885,374
Excess (deficiency) of revenue over expenditures	$ (263,392)	$358,269	$(1,417,410)	$(2,073,633)	$ (3,396,166)

(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, 2011

	MAJOR FUNDS				
	GENERAL FUND	DEBT SERVICE FUNDS	$3,817,000 LOAN FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess of Revenues over Expenditures	$(263,392)	$ 358,269	$(1,417,410)	$(2,073,633)	$(3,396,166)
Other financing sources (uses):					
Operating transfer in	332	58,980			59,312
Operating transfer out	(58,980)	(332)			(59,312)
Proceed from loan				665,000	665,000
Total other financing sources	(58,648)	58,648		665,000	665,000
Excess of revenues and other financing sources (under) expenditures and other financing sources	(322,040)	416,917	(1,417,410)	(1,408,633)	(2,731,166)
Fund balance beginning of year	370,980	952,441	3,196,887	3,692,100	8,212,408
Fund balance at end of year	$ 48,940	$1,369,358	$ 1,779,477	$ 2,283,467	$ 5,481,242

OK 29/04/2012

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, 2011

Net change in fund balances – total governmental funds	$(2,731,166)
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.	4,340,157
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.	152,000
Changes in accrued expenses which do not require the use of current financial resources:	
Interest	(13,272)
Compensating absences	(332,584)
Deferred revenues	177,091
Governmental funds report payments of other long-term debt as expenditures whereas the payment reduces the long-term is the obligate in the statement of net assets.	15,042
Governmental funds reports proceed from loan as other financial sources whereas, to proceeds from loan increase the long-term debts in the statement of net assets.	(665,000)
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.	(1,825,647)
Changes in Net Assets of Governmental Activities	$ (883,379)

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, 2011

ASSETS

	PROPRIETARY FUND RIO PLATA DEVELOPMENT
Current Assets:	
Cash	$ 813
Accounts receivable:	
HUD	39,693
Other	11,615
	52,120
Property and Equipment	1,117,396
Restricted deposits	791,990
	$1,961,507

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Current maturities of mortgage note	$ 112,318
Accounts payable and accrued expenses	123,303
	235,621
Long-term liabilities:	
Deposits	13,699
Mortgage note, net of current maturities	757,286
	770,985
	1,006,606
Net assets	954,901
Total liabilities and net assets	$1,961,507

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, 2011

	PROPRIETARY FUND RIO PLATA DEVELOPMENT
Revenues:	
Rent	$584,959
Financial	3,156
Others	519
Total revenues	588,634
Expenses:	
Administrative	155,086
Utilities	8,551
Operating Maintenance	161,406
Taxes and insurance	36,995
Depreciation	90,834
Interest	70,635
Total Expenses	523,507
Change in net assets	65,127
Project net assets, beginning of year	889,774
Project net assets, and year	$954,901

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, 2011

	PROPRIETARY FUND RIO PLATA DEVELOPMENT
Cash flows from operating activities:	
Receipts:	
Rental receipts	$ 599,643
Interest receipts	3,229
Other operating receipts	446
Total receipts	603,218
Disbursements:	
Administrative	35,851
Management fee	46,806
Utilities	8,551
Salaries and wages	150,563
Operating and maintenance	96,230
Property insurance	10,765
Miscellaneous taxes and insurance	14,777
Interest on first mortgage	72,783
Total disbursements	436,326
Net cash provided by operating activities	166,892
Cash flows from investing activities:	
Deposits to the reserve for replacement account	(33,305)
Withdrawals at reserve for replacement account	286,719
Net deposits to the reserve for replacement account	(187)
Net purchase of fixed assets	(320,088)
Net cash used in investing activities	$ (66,861)

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

	PROPRIETARY FUND RIO PLATA DEVELOPMENT
Cash flows from operating activities:	
Principal payments- first mortgage	$(103,037)
Net cash used in financing activities	(103,037)
Net decrease in cash	(3,006)
Cash at beginning of year	3,819
Cash at end of year	$ 813
Reconciliation of chance in total net assets from operation to net cash provided by operating activities:	
Change in total net assets from operations	$ 65,127
Adjustment to reconcile change in total net assets form operations to net cash provided by operating activities:	
Depreciation expense	90,834
Bad debt expense	4,865
(Increase) decrease in current assets and increase (decrease) in current liabilities:	
Tenant accounts receivable	9,719
Cash restricted for tenant security deposits	439
Accounts payable	8,833
Accrued liabilities	(12,486)
Tenant security deposits held in trust	(439)
Net cash provided by operating activities	$ 166,892

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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets (Continued)

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.

Fund balance

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

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

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

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

- **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be changed by similar resolutions, no later than the end of the fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

- **Assigned** – Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the by-laws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

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

At June 30, 2011, the accompanying fund financial statements reported fund balances as restricted, assigned and unassigned.

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, 2011 amounted to $205,778. The current insurance policies have not been cancelled or terminated. The CRIM also deducted $203,993 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 retires employees. Substantially all of the employees may become eligible for these benefits of they reach normal retirement to while working for the Municipality. For the fiscal year ended June 30, 2011, post employment benefits to retirees amounted to $21,916. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Compensated absences (Continued)

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.

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, 2011, 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.

3. PROPERTY TAX (CONTINUED)

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.

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 2011 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, 2011 the amount due to CRIM amounting to $660,391 is presented as other long-term debt (see Note 10).

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, 2011. The composition of property taxes receivable and the related deferred revenues is a follows at June 30, 2011:

	General Fund	Debt Service Fund	Total
Gross property taxes receivable	$4,173,252	$943,006	$5,116,258
Less allowance for uncollectible accounts	3,591,918	811,175	4,403,093
Net property taxes receivable	$ 581,334	$131,831	$ 713,165
Deferred (unavailable property) tax revenues in GFFS	$ 567,210	$126,676	$ 693,886

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, 2011, $314,769 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 and statement of net assets.

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:

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.

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 2010-2011 that will be earned in fiscal year 2011-2011.	$ 314,769
The deferred revenue presented in other governmental funds is the portion of federal grants received for which qualifying expenditures have not been incurred.	198,882
Property tax receivable but not available in the government fund financial statements.	693,886
	$1,207,537

8. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, 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	$741,909
Security deposits	13,699
Residual receipts	36,382
	$791,990

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.

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 6,887,905	$ 658,578		$ 7,546,483
Construction progress	7,082,952	3,150,161	$(10,143)	10,222,970
Total capital assets not being depreciated	13,970,857	3,808,739	(10,143)	17,769,453
Capital assets being depreciated:				
Buildings	20,621,720			20,621,720
Equipment	1,763,414	49,229		1,812,643
Infrastructure	2,950,123	46,123		2,996,246
Infrastructure equipment	10,323,829	23,569		10,347,398
Buildings improvements	9,864,804	204,594		10,069,398
Furnishing	482,857	14,536		497,393
Work of art	1,580			1,580
Computer	293,654	16,747		310,401
Vehicles	3,314,718	186,763		3,501,481
Total capital assets being depreciated	49,616,699	541,561		50,158,260
Less accumulated depreciation for:				
Buildings	(4,291,560)	(513,946)		(4,805,506)
Equipment	(1,402,894)	(143,638)		(1,546,532)
Infrastructure	(298,686)	(74,342)		(373,028)
Infrastructure equipment	(1,636,329)	(688,407)		(2,324,736)
Buildings improvements	(1,047,730)	(249,105)		(1,296,835)
Furnishing	(380,195)	(45,523)		(425,718)
Work of art	(1,580)			(1,580)
Computer	(253,805)	(24,264)		(278,069)
Vehicles	(3,197,572)	(86,422)		(3,283,994)
	(12,510,351)	(1,825,647)		(14,335,998)
Total depreciable capital assets, net	37,106,348	(1,284,086)		35,822,262
Governmental activities capital assets net	$ 51,077,205	$ 2,524,653	$ (10,143)	$53,591,715

10. CAPITAL ASSETS (CONTINUED)

Primary Government	Balance June 30, 2010	Increase	Decrease	Balance June 30, 2011
Business-type activities:				
Capital assets net being depreciated:				
Land	$ 134,360			$ 134,360
Capital assets being depreciated:				
Building and improvements	3,840,763	$309,629		4,150,392
Office furniture and equipment	188,321	10,459		198,780
	4,029,084	320,088		4,349,172
Less accumulated depreciation:				
Building and improvements	(3,091,342)	(84,767)		(3,176,109)
Office furniture and equipment	(183,961)	(6,067)		(190,028)
	(3,275,303)	(90,834)		(3,366,137)
Total depreciation, capital, assets net	753,781	229,254		983,035
Business activities capital assets, net	$ 888,141	$229,254		$1,117,395

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

	Governmental Activities	Business-Type Activities
General administration	$ 459,078	
Public safety	47,233	
Public works	1,065,338	
Education, culture and recreation	248,877	
Health and welfare	5,121	
Housing		$90,834
Total depreciation expense	$1,825,647	$90,834

11. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2011 was as follows:

Primary government: Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Bonds and notes payable	$5,479,000	$665,000	$152,000	$5,992,000	$ 235,000
Advance from CRIM	675,433		15,042	660,391	15,587
Compensated absences	1,478,093	332,584		1,810,677	950,000
	7,632,526	997,584	167,042	8,463,068	1,200,587
Business-type activities:					
Mortgage payable	974,414		104,810	869,604	112,318
Total	$8,606,940	$997,584	$241,852	$9,332,672	$1,312,905

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 $20,000 to $26,000 through January 1, 2016 plus interest at 5.75%	$ 115,000
$95,000 public improvement bonds of 1993 payable in annual principal installments ranging from $6,000 to $7,000 through January 1, 2016, plus interest at 5%	31,000
$505,000 municipal general obligation bonds of 2003 payable in annual principal installments ranging from $15,000 to $40,000 through July 1, 2027, plus interest at 5% to 6.5%	415,000
$1,010,000 notes of 2005 payable in an annual principal installment of $30,000 to $70,000 through July 1, 2029, plus Interest at 5%	840,000
$3,817,000 municipal special obligation note serial of 2008 payable in an annual installments regarding from $104,000 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 two annual principal installments of $31,000 and $33,000 through January 1, 2013, plus interest at 4.50%.	64,000
$100,000 municipal general obligation note of 2007 payable in annual installments ranging from $14,000 to $16,000 though January 1, 2015 plus notes at 4.13%.	60,000
$284,000 municipal general obligation note of 2007 payable in monthly installments ranging from $40,000 to $46,000 though January 1, 2015 plus interest at 4.13%.	172,000
$665,000 municipal general of obligation of 2010 payable in monthly installments ranging from $5,000 to $65,000 through July 1, 2035 plus interest at 7.50%	665,000
	5,992,000

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.	869,604
	$6,861,604

11. LONG-TERM DEBT (CONTINUED)

Advances from CRIM

These amounts represent the balance owed to CRIM at June 30, 2011 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, 2011 are as follows:

Governmental-Type Activities

Bonds and Notes Payable Year Ended June 30	Principal	Interest	Aggregated payments
2012	$ 235,000	$ 176,504	$ 411,504
2013	280,000	385,557	665,557
2014	258,000	368,899	626,899
2015	276,000	352,845	628,845
2016	231,000	335,683	566,683
2017-2021	1,255,000	1,432,410	2,687,410
2022-2026	1,743,000	918,943	2,661,943
2027-2031	1,459,000	269,703	1,728,703
2032-2036	255,000	52,412	307,412
	$5,992,000	$4,292,956	$10,284,956

11. LONG-TERM DEBT (CONTINUED)

Due to CRIM:

Year ended June 30	Principal	Interest	Aggregated payments
2012	$ 15,987	$ 40,617	$ 56,604
2013	16,992	39,612	56,604
2014	18,059	38,545	56,604
2015	19,194	37,410	56,604
2016	20,400	36,204	56,604
2017-2021	122,914	160,106	283,020
2022-2026	166,694	116,326	283,020
2027-2031	226,068	56,952	283,020
2032	54,083	2,522	56,605
	$660,391	$528,294	$1,188,685

Business-type activities
Mortgage note payable:

Year ended June 30	Principal	Interest	Aggregated payments
2012	$112,318	$ 73,838	$ 186,156
2013	122,881	63,275	186,156
2014	134,437	51,719	186,156
2015	147,080	39,076	186,156
2016	160,969	25,187	186,156
2017-2018	191,919	9,750	201,669
	$869,604	$262,845	$1,132,449

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.

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, 2011 amounted to approximately $234,258 and $266,007, 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, 2011, a copy of which can be obtained from the Retirement System.

13. CONTINGENCIES

At June 30, 2011, 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, 2011

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AT BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	$ 1,105,663	$ 1,105,663	$ 987,642	$(118,021)
Municipal tax	548,389	548,389	617,442	69,053
Sales tax	558,085	558,085	575,828	17,743
Construction excise taxes	132,000	132,000	244,883	112,883
Grants and entitlements	7,433,240	7,433,240	7,419,047	(14,193)
Rental income	316,298	316,298	377,252	60,954
Licenses and permits	1,300	1,300	6,325	5,025
Interest	24,250	24,250	85,552	61,302
Other	774,380	774,380	48,981	(725,399)
Total revenues	10,893,605	10,893,605	10,362,952	(530,653)
Expenditures:				
General administration	5,642,922	5,690,987	5,571,118	119,869
Public safety	730,430	713,723	710,638	3,085
Education, culture and recreational	373,635	385,658	375,559	10,099
Public works and sanitation	2,463,410	2,424,796	2,342,966	81,830
Health and welfare	793,503	773,680	747,110	26,570
Communication press and media	349,176	370,986	367,843	3,143
Planning and general service	540,529	533,775	521,935	11,840
Total expenditures	10,893,605	10,893,605	10,637,169	256,436
Excess of revenue over expenditure	$	$	$ (274,217)	$ (274,217)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2011

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.

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:

	Revenues	Expenses
Revenue and expenses for generally accepted accounting principles (GAAP) basis	$10,326,903	$10,590,295
Transfer in included as revenues in budgetary basis	332	
Transfer out included as expenditures in budgetary basis		58,980
Other adjustment to adjust revenues and expenses from budgetary basic to modified accrual basis	35,717	(12,106)
Revenue and expenses per budgetary basis	$10,362,952	$10,637,169

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

	NUMBER	EXPENDITURES
US Department of Housing and Urban Development		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	$ 558,626
ARRA-Community Development Block Grant	14.255	244,935
Puerto Rico Public Housing Administration:		
Public and Indian Housing	14.850	327,445
Puerto Rico Department of Family:		
ARRA-Homeless Prevention and Rapid Re-Housing Program	14.257	134,004
Emergency Shelter Grants Program	14.231	52,759
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	607,568
		1,925,337
US Department of Justice		
Passed through:		
PR Department of Justice:		
Public Safety Partnership and Community Policing Grants	16.710	22,434
Crime Victim Assistance Program	16.575	19,681
Edward Byrne Memorial Justice Assistance Grant Program	16.738	85,992
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.804	80,000
		208,107
US Department of Agriculture		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	19,169
US Department of Health and Human Services		
Passed through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	282,494
ARRA –Child Care and Development Block Grant	93.713	62,247
		344,741
US Department of Homeland and Security		
Passed through:		
PR Office of Management and Budget (GAR)		
Public Assistance Grant	97.036	124,004
		$ 2,621,358

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

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. Díaz Negrón

Certified Public Accountant

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

PO BOX 408, 44 RAFAEL LASA ST., AGUAS BUENAS, PR 00703 TEL. 787-732-8020 FAX: 787-732-0685, E-MAIL: oficinacarlosdiazcpa@yahoo.com

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, 2011, which collectively comprise the Municipality of Comerío, Puerto Rico's basic financial statements and have issued our report thereon dated November 23, 2011. Others 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 23, 2011.

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.

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

January 17, 2012
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2013

The stamp No. **E3058** 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. Díaz Negrón

Certified Public Accountant

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

PO BOX 408, 44 RAFAEL LASA ST., AGUAS BUENAS, PR 00703 TEL. 787-732-8020 FAX: 787-732-0685, E-MAIL: oficinacarlosdiazcpa@yahoo.com

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, 2011. 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 $1,302,277 in federal award which are not included in the schedule during the year ended June 30, 2011. 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, 2011. 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.

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

January 17, 2012
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013

The Stamp No. **E3059** of the Puerto Rico 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, 2011

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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**
93.575	Childcare Development Block Grant
14.228	Community Development Block Grant/ State's Program.
14.850	Public and Indian Housing

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

Audit qualified as low-risk audited?	___yes	_X_no

SECTION II - FINANCIAL STATEMENTS FINDINGS

NONE

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

Finding No. 1-11 – 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 $277,571.19, the Municipality did not verity that the entity is not suspended or debarred or otherwise excluded. **Criteria:**

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 verity 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.

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

Finding No. 1-11 – Procurement and Suspension and Debarment (Continued)

Effect:

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

Questioned cost:

None

Recommendation:

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

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

Finding No. 2-11 – Procurement and Suspension and Debarment

Federal Program

CFDA – 93.713 ARRA Child Care 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 1 disbursement examined amounting $14,000, the Municipality did not obtain competitive bids to comply with the procurement requirement.

Criteria:

Procurement:

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. A-102 states that all procurement transactions will be conducted in a manner providing full and open competition.

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

Finding No. 2-11 – **Procurement and Suspension and** Debarment (Continued)

Effect:

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

Questioned cost:

$14,000

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 COMERÍO

EXHIBIT – I

CORRECTIVE ACTION PLAN
FOR YEAR ENDED JUNE 30, 2011

CORRECTIVE ACTION PLAN

SINGLE AUDIT FOR THE YEAR ENDED JUNE 30, 2011

Finding No. 01-11 Procurement and Suspension and Debarment

PROGRAM DEFICIENCY	OBJECTIVES	KEY TASK/ ACTION ITEMS	OBSTACLES	RESOURCES	LEAD STAFF NAME AND POSITION	COMPLETION TARGET DATE	ACTUAL COMPLETION DATE	IMPLEMENTATION PROGRESS COMMENTS
As part of our procedure we examined 5 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Garant program. In 3 of the 3 disbursements amounting $277,571.19, the Municipality did not verity that the entity is not suspended or debarred or otherwise excluded.	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 chequing the Excluded Parties List System(EPLS) maintained by the General Service Administration(GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.	The correct contract form including the new clause regarding the Procurement and Suspension and Debarment will be give to the Secretary's Office and Legal Division in order to comply with this requirement. This has to be used in future contracts. A General Service Administration (GSA) certification will be request prior to the signature of the contract. This verification accomplished by checking the Excluded Parties List System (ELPS).	The Municipality could be exposed to administrative action by the grantor.	The Excluded Parties List System (ELPS) maintained by the General Services Administration (GSA)	Roberto Ortiz – Municipality Secretary Lcda. Nellienid Lugo-Director Legal Division	March 1, 2012	March 1, 2012	A copy of the contract was send to the Municipality Secretary Office in order to comply with this requirement.

CORRECTIVE ACTION PLAN

SINGLE AUDIT FOR THE YEAR ENDED JUNE 30, 2011

Finding No. 02-11 Procurement and Suspension and Debarment

PROGRAM DEFICIENCY	OBJECTIVES	KEY TASK/ ACTION ITEMS	OBSTACLES	RESOURCES	LEAD STAFF NAME AND POSITION	COMPLETION TARGET DATE	ACTUAL COMPLETION DATE	IMPLEMENTATION PROGRESS COMMENTS
As part of our procedure we examined 5 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Garant program. In 1 disbursement examined amounting $14,000, the Municipality did not obtain cpmpetitive bids to comply with the procurement required.	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. A-102 states that all procurement transactions will be conducted in a manner providing full and open competition.	We gave the instructions to the Municipality Secretary and to the Cabinet meeting that when they evaluate the public auction they have to consider the correct process. Also, when they make changes in the projects that change completely they must required a knew quotation to the bidder.	The Municipality could be exposed to administrative action by the grantor.		Roberto Ortiz – Municipality Secretary Heriberto Fernández – Presidente Cabinet Meeting	March 1, 2012	March 1, 2012	A copy of the contract was send to the Municipality Secretary Office in order to comply with this requirement.