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

MUNICIPIO DE FAJARDO
AUDITORÍA 2009-2010

30 DE JUNIO DE 2010

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2010

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2010
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)

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PART I

FINANCIAL

CPA DIAZ-MARTINEZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Fajardo, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2010, which collectively comprise **Municipality**'s basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of **Municipality**'s management. Our responsibility is to express an opinion on these basic combined financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2011 on our consideration of the **Municipality**'s internal control over financial reporting and on our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 16, and 46 and 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Member of: American Institute of Certified Public Accountants (AICPA)
Puerto Rico Society of Certified Public Accountants

Enrolled in the AICPA Peer Review Program Since 1988

CPA

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 purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CPA Díaz-Martínez, PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
February 23, 2011

2586525

The following discussion and analysis of the Municipality of Fajardo's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2010 by $126,666,401 and 2009 by $118,338,927, as restated (net assets).
- Revenues increased by $2,559,820 (3.5%) and expenses decreased $3,776,718 (6.1%) in comparison with year 2009.
- Net change in net assets amounted to $6,336,538, an increase of 61% with respect to prior year (2009) net change.

Highlights for Fund Financial Statements

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

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $54,779,180, an increase of $3,428,413 in comparison with the prior year.

- The General Fund reported an excess of revenues over expenditures of $3,298,655 and Transfer to Other Funds the amount of $2,276,732. Also, $138,118 was transfer to Debt Service Fund to cover the principal and interests of operating bonds. General Fund reported unreserved fund balance of $13,067,716, an increase of $883,805 from prior year.

General Financial Highlights

- The investment in net capital assets as of June 30, 2010 was $82,857,737 (net of related debt).

- Long-Term General Obligations decreased to $1,004,000 in comparison with prior year balance, due to the principal payment.

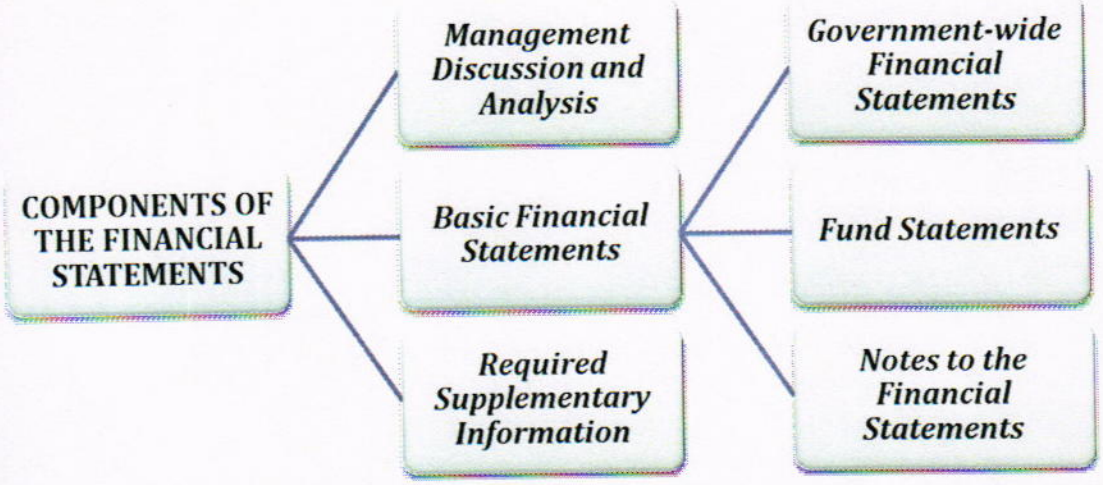
- Other long-term debts increases and net reductions from payments amounted to $401,581 and $1,138,513, respectively.

- On a budgetary basis, actual revenues exceeded actual expenditures by $15,304,693, net of $2,414,850 designated general fund for future expenditures (transfers out to other funds and debt service fund).

- Revenues decrease ($2,000,736) was mainly due to a reduction on interest revenue and intergovernmental revenue. Expenditures were less than estimated by $4,114,443.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

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

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

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

- ***Fund Financial Statements***

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

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

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

- ***Notes to the Financial Statements***

  Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

Required Supplementary Information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2010 and 2009:

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 61.4% with respect to prior year as restated.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for $82,857,737; total capital assets ($131,880,793) less accumulated depreciation ($40,966,661) and less any related outstanding debt ($8,056,395) used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Table 1

Commonwealth of Puerto Rico
Municipality of Fajardo, Puerto Rico
Statement of Net Assets
June 30,

	2010	2009
Current and Non-current Assets	$ 68,141,379	$ 61,895,984
Capital Assets	90,914,132	88,338,302
Total Assets	**159,055,511**	**150,234,286**
Current Liabilities	1,245,243	1,610,212
Deferred Revenues	6,899,843	4,610,761
Long-Term Liabilities	24,244,024	25,674,386
Total Liabilities	**32,389,110**	**31,895,359**
Net Assets:		
Inverstment in Capital Assets, Net of Related Debt	82,857,737	79,880,503
Restricted	27,056,139	24,344,343
Unrestricted	16,752,525	14,114,081
Total Net Assets	**$ 126,666,401**	**$ 118,338,927**

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

As of June 30, 2010 the Municipality presented unrestricted net assets of $16,752,525. This balance was affected by long-term obligations such as compensated absences $3,046,177 and other debts for the amount of $780,847 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

Changes in Net Assets

The following table summarizes the changes in net assets for the years ended June 30, 2010 and 2009:

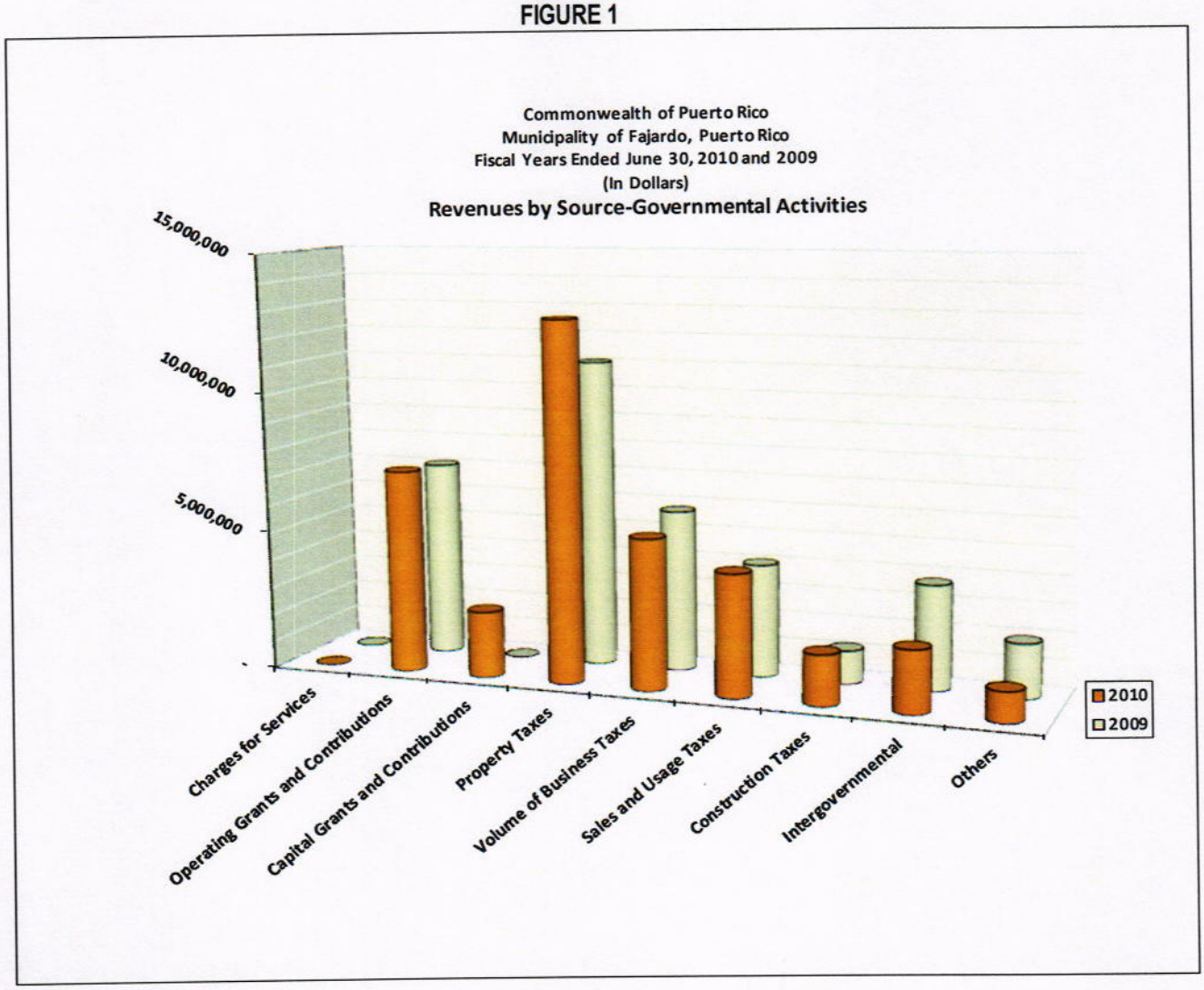
Table 2

Commonwealth of Puerto Rico
Municipality of Fajardo, Puerto Rico
Change in Net Assets
For the Fiscal Years Ending June 30,

	2010	2009
Revenues:		
Program Revenues:		
Changes for Services	$ -	$ -
Operating Grants and Contributions	7,304,077	7,068,748
Capital Grants and Contributions	2,395,225	-
General Revenues:		
Property Taxes	12,842,417	11,049,268
Volume of Business Taxes	5,388,135	5,795,746
Sales and Usage Taxes	4,377,562	4,058,312
Construction Taxes	1,811,044	1,198,075
Intergovernmental	2,236,701	3,762,075
Other General Revenues	1,089,548	1,952,665
Total Revenues	37,444,709	34,884,889
Expenses:		
General Administration	13,492,385	14,656,605
Public Safety	954,192	1,061,642
Public Works	2,141,482	3,592,499
Culture and Recreation	1,178,175	1,574,975
Health and Sanitation	3,123,128	2,746,306
Public Instruction	4,664,811	3,895,751
Human Services and Welfare	1,361,001	1,809,423
Urban Development	1,696,180	2,822,267
Interest Costs	505,881	734,485
Total Expenses	29,117,235	32,893,953
Canges in Net Assets	**8,327,474**	**1,990,936**
Net Assets-Beginning, as restated	118,338,927	116,347,991
Net Assets-Ending	**$ 126,666,401**	**$ 118,338,927**

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

FIGURE 1

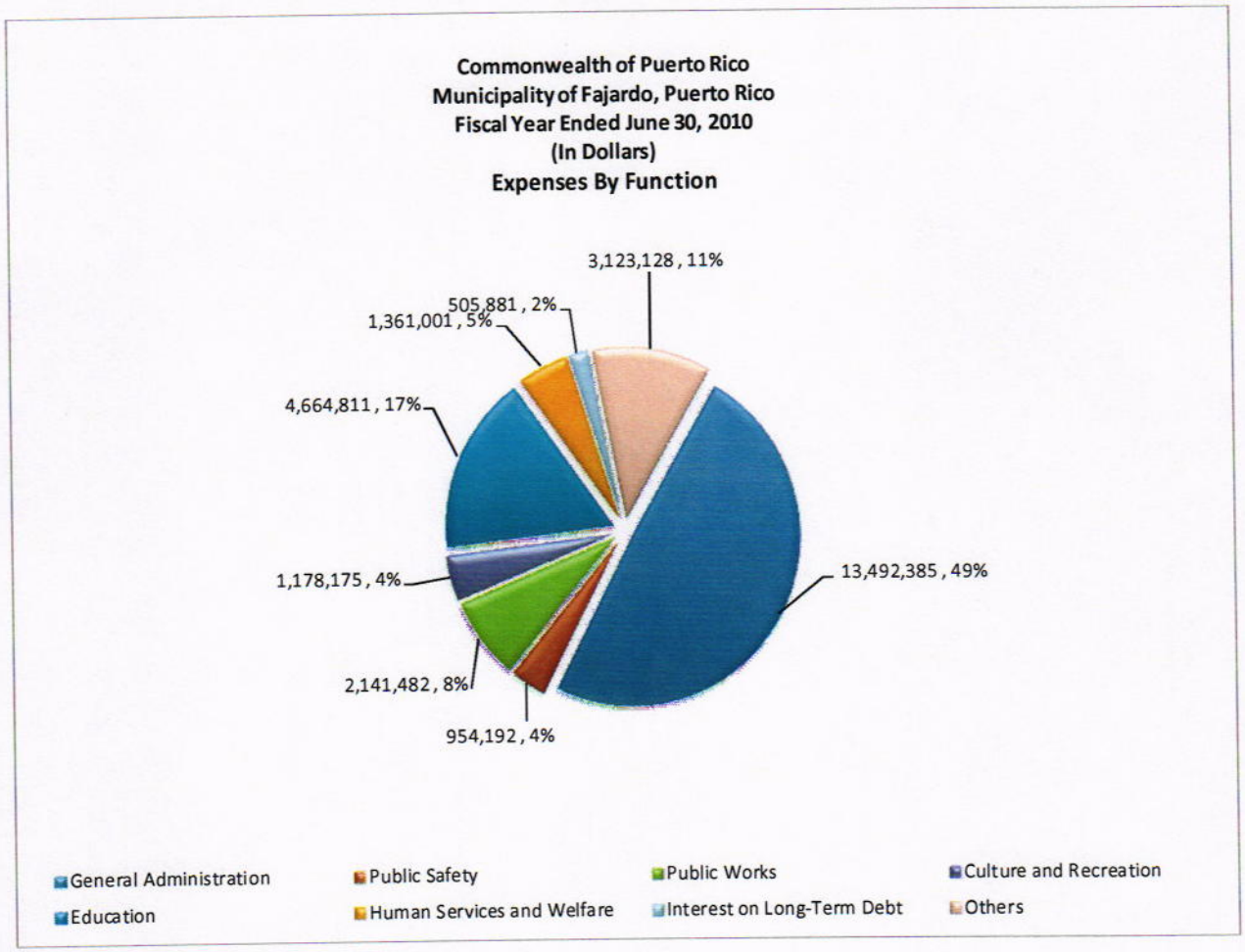


Approximately 34% of the Municipality's revenues came from property taxes, 20% from grants and contributions, volume of business taxes 14% and 32% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 49%, education with 17%, public works with 8%, and human services and welfare with 5%. Program revenues of the Municipality covered 33% of total expenses.

With respect to prior year, revenues increased by approximately $2.6 millions or 3.5%, principally due to the property taxes ($1.8 millions) and capital grants and contributions ($2.4 millions).

FIGURE 2 presents expenses by function of the governmental activities during the fiscal year 2009-2010:

FIGURE 2



Expenses decreased 6.1% or $3.7 million in comparison with 2009 year, principally in public works and general administration.

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

Table 3

Commonwealth of Puerto Rico
Municipality of Fajardo, Puerto Rico
Net Cost of Municipality's Governmental Activities
For the Fiscal Years Ended June 30,

	Total Cost of Services		Net Cost of Services	
Functions/Programs	**2010**	**2009**	**2010**	**2009**
General Administration	$ 13,492,385	$ 14,656,605	$ 13,330,213	$ 13,291,519
Public Safety	954,192	1,061,642	954,192	1,061,642
Public Works	2,141,482	3,592,499	2,141,482	3,592,499
Culture and Recreation	1,178,175	1,574,975	1,178,175	1,574,975
Public Instruction	4,664,811	3,895,751	324,926	77,585
Human Services and Welfare	1,361,001	1,809,423	(281,338)	880,144
Urban Development	1,696,180	2,822,267	(1,858,726)	1,866,050
Interest on Long-Term Debt	505,881	734,485	505,881	734,485
Health and Sanitation	3,123,128	2,746,306	3,123,128	2,746,306
Total	**$ 29,117,235**	**$ 32,893,953**	**$ 19,417,933**	**$ 25,825,205**

Some of the cost of governmental activities in 2010 was paid by other governments and organizations that subsidized certain programs with grants and contributions ($9,699,302). The $19,417,933 net cost of services was substantially covered by other general revenues including property, volume of business license taxes, sales and usage taxes and intergovernmental.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2010, the governmental funds reported combined ending fund balances of $54,779,180, a net increase of $3,428,413 in comparison with the prior year. This increase was caused primarily by a net change in the debt service fund corresponding to excess of revenues $2,997,430 million. Of total combined fund balances, $13,067,716 (23%) constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 89% of total ending general fund balance. For the year ended June 30, 2010, the fund balance of the general fund increased by $883 thousand when compared with the prior year.

Table 4

Government of Puerto Rico
Municipality of Fajardo, Puerto Rico
General Fund
As of June 30,

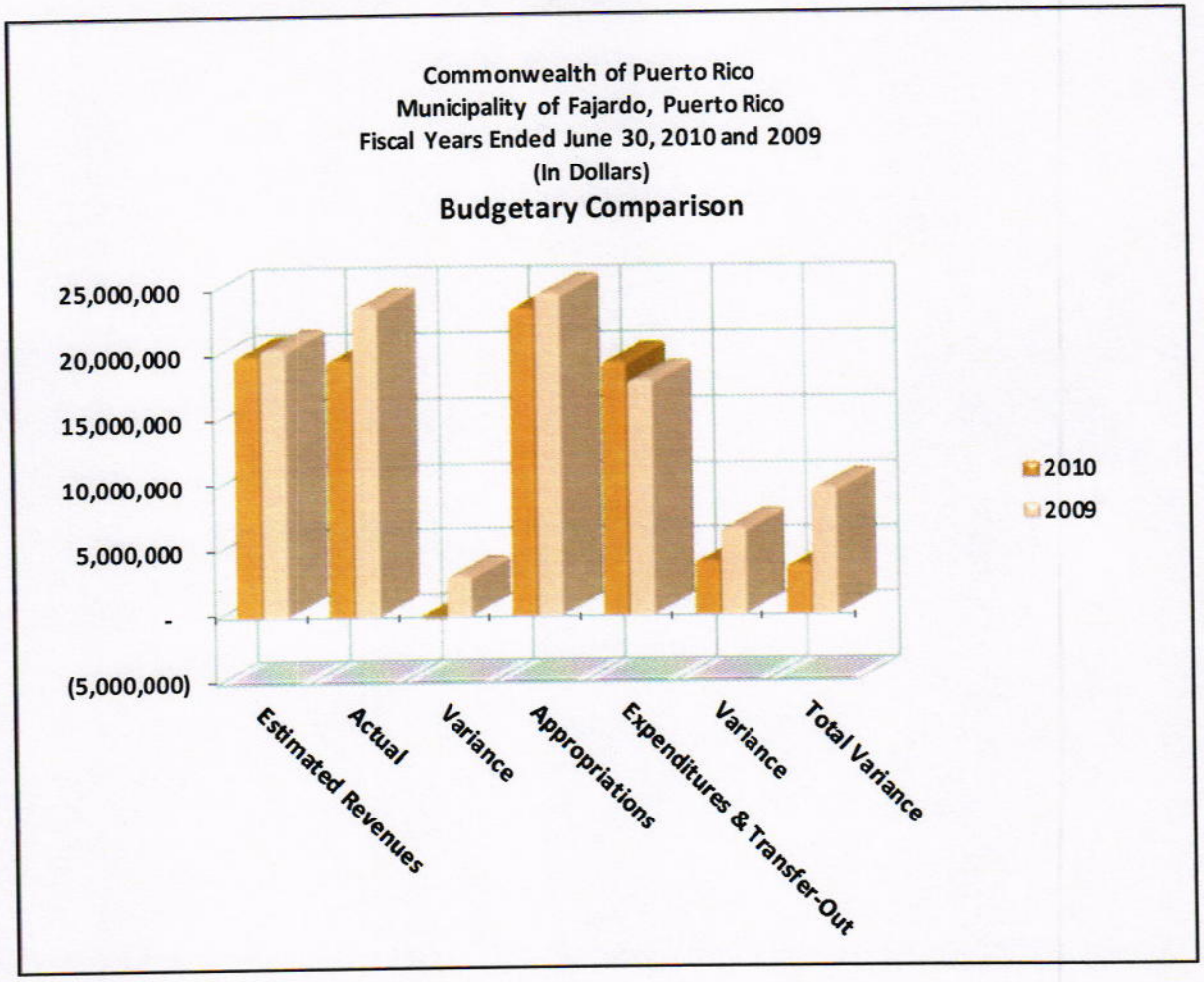
Description	2010	2009
Revenues:		
Property Taxes	$ 9,154,746	$ 8,565,223
Volume of Business Taxes	5,388,135	5,795,746
Licenses and Permits	1,811,044	1,198,075
Intergovernmental	2,243,867	4,158,158
Interests	244,373	1,418,182
Miscellaneous	822,708	530,225
Total Revenues	19,664,873	21,665,609
Expenditures:		
General Government	8,988,496	9,588,746
Public Safety	850,357	993,361
Public Work	1,368,214	2,715,206
Culture and Recreation	1,083,875	1,395,680
Health and Sanitation	3,123,128	1,781,277
Human Services and Welfare	836,972	861,164
Urban Development	-	27,587
Capital Outlay	115,176	181,035
Total Expenditures	16,366,218	17,544,056
Net Transfer In (Out)	(2,414,850)	(306,381)
Other Financing Sources	-	-
Net Increase in Fund Balance	**$ 883,805**	**$ 3,815,172**

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2009-2010 presented a decrease of 5.8% with respect to prior year budget. Budget expenditures were amended during the year in accordance with functions estimates. Nevertheless, non-budgeted transfers to non-major funds were used to pass economies in appropriations to specific capital projects of $2.3 million.

A positive variance of $3.8 million between final budget and actual expenditures was due mainly to additional revenues as explain in the preceding paragraph and economies in some functions. The Municipality reported more expenditures than appropriations in those functions on payments for purchase of supplies, equipment, and professional and nonprofessional services.

FIGURE 3


Commonwealth of Puerto Rico
Municipality of Fajardo, Puerto Rico
Fiscal Years Ended June 30, 2010 and 2009
(In Dollars)
Budgetary Comparison
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
-
(5,000,000)
Estimated Revenues
Actual
Variance
Appropriations
Expenditures & Transfer-Out
Variance
Total Variance
2010
2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Municipality has invested $90,914,132 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of $2.6 million or over 2.8% from the prior year.

The Municipality invested a total of $4,461,849 in capital assets during the fiscal year 2009-2010. Principal addition were as follows:

Table 5

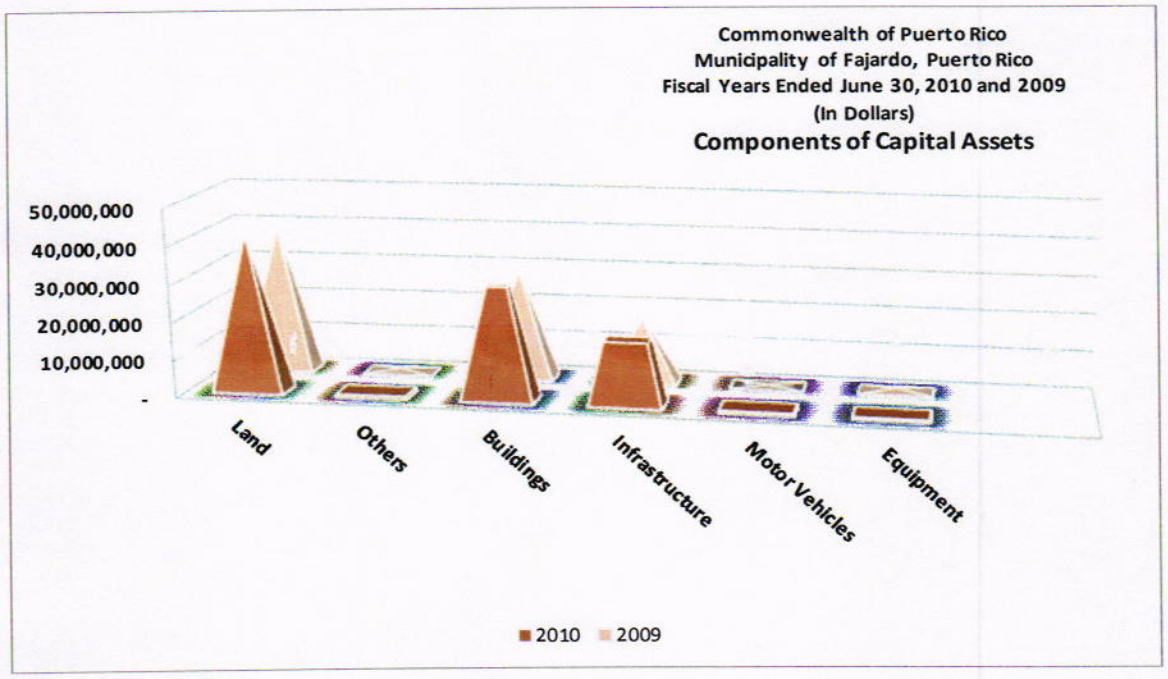
Commonwealth of Puerto Rico
Municipality of Fajardo, Puerto Rico
Capital Assets, net
As of June 30,

	Governmental Activities	
	2010	**2009**
Non-Depreciable Assets:		
Land	$ 42,123,225	$ 39,853,453
Others	765,615	765,615
Depreciable Assets:		
Buildings	30,007,090	29,283,313
Infraestructure	16,850,738	17,406,106
Motor Vehicles	649,740	151,323
Equipment	517,724	878,492
Total	**$ 90,914,132**	**$ 88,338,302**

- Land acquisition - $2,269,772
- Building and Improvement - $1,471,856
- Acquisition of Motor Vehicles – $720,491

Other projects related to repair and maintenance of roads (not capitalized) and facilities were developed during the year 2010.

FIGURE 4



Long-Term Debts

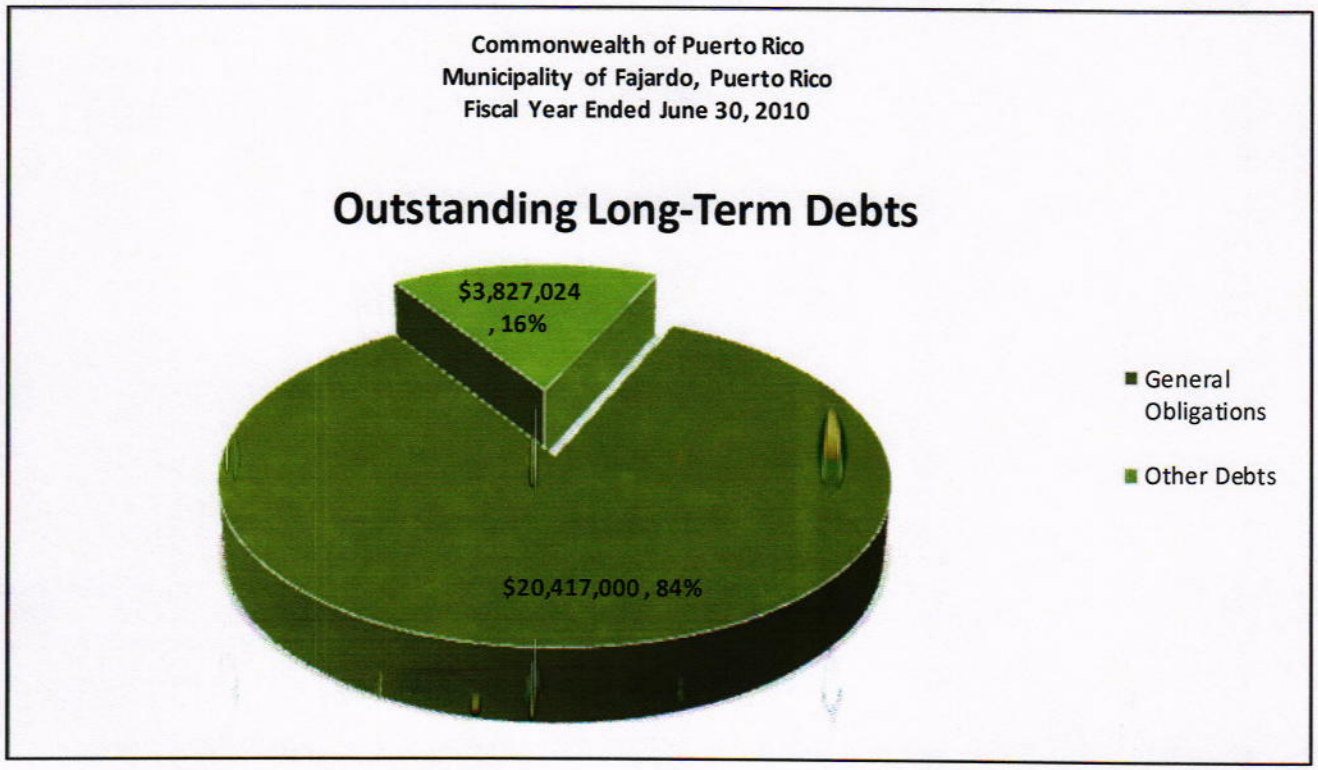
At year-end, the Municipality had $20,417,000 in general bonds, a decrease of $1,004,000 million. The following is a summary of the Municipality's outstanding debt as of June 30, 2010 and 2009:

Table 6

Commonwealth of Puerto Rico
Municipality of Fajardo, Puerto Rico
Outstanding Long-Term Debts
As of June 30,

	Governmental Activities	
	2010	**2009**
General Obligation Bonds	$ 20,417,000	$ 21,421,000
Others Debts	3,827,024	4,563,956
Total	**$ 24,244,024**	**$ 25,984,956**

FIGURE 5



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2009-2010 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 18.5%, which compares with the Commonwealth rate of 16.9%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2010-2011 are $21.7 million, approximately $2.2 million more than the fiscal year 2009-2010. The Municipality expects an increase in revenues for the next year due to estimated income from State Governmental Agencies and Public Corporations. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects are developed during the year.

AMERICAN RECOVERY AND REINVESTMENT ACT

The Municipality received the following federal awards from the American Recovery and Reinvestment Act during fiscal year 2009-2010:

Federal Program	CFDA Number	Total Award	Total Expended
Community Development Block Grant/Entitlement Grants - Cluster	14.253	$259,681	$205,703
Homelessness Prevention and Rapid Re-Housing Program	14.257	534,666	44
Head Start Program - Cluster	93.708	414,248	155,280
Early Head Start Program - Cluster	93.709	304,672	137,282
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	1,144,403	162,172
Total		**$ 2,657,670**	**$ 660,481**

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Finance Department at [(787) 863-1400] or P.O. Box 865, Fajardo, Puerto Rico 00738.

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and Investments	$ 45,058,969
Cash with Fiscal Agent	17,075,696
Receivables (net):	
Property Taxes	442,959
Sales and Usage Taxes	291,257
Due from Governmental Units	150,287
Federal Grants	5,016,134
Total Currents Assets	68,035,302
Deferred Charges	106,077
Capital Assets:	
Land, Improvement and Construction in Progress	42,888,840
Other Capital Assets [Net of Depreciation]	48,025,292
Total Capital Assets	90,914,132
TOTAL ASSETS	**159,055,511**
LIABILITIES:	
Accounts Payable and Accrued Expenses	649,885
Accrued Interest	239,143
Due to Governmental Units	356,215
Deferred Revenues	6,899,843
Long-Term Liabilities:	
Due Within One Year	3,474,750
Due in More than One Year	20,769,274
TOTAL LIABILITIES	**32,389,110**
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt	82,857,737
Restricted for:	
Head Start Program	2,247,684
Capital Projects	3,583,281
Debt Service	13,233,657
Community Development Projects	1,287,778
Other Purposes	6,703,739
Unrestricted	16,752,525
TOTAL NET ASSETS	**$ 126,666,401**

See accompanying Notes to Basic Financial Statements.

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues (See Next Page)
Governmental Activities:					
Mayor and Municipal Legislature	$ 2,473,421	$ -	$ -	$ -	$ (2,473,421)
General Government	11,018,964	-	162,172	-	(10,856,792)
Public Safety	954,192	-	-	-	(954,192)
Public Works	2,141,482	-	-	-	(2,141,482)
Culture and Recreation	1,178,175	-	-	-	(1,178,175)
Health and Sanitation	3,123,128	-	-	-	(3,123,128)
Human Services and Welfare	1,361,001	-	1,574,998	67,341	281,338
Urban Development	1,696,180	-	1,227,022	2,327,884	1,858,726
Public Instruction	4,664,811	-	4,339,885	-	(324,926)
Interest on Long-Term Debt	505,881	-	-	-	(505,881)
Total Governmental Activities	**29,117,235**	**-**	**7,304,077**	**2,395,225**	**(19,417,933)**

General Revenues:	
Taxes:	
Property Taxes, levied for General Purposes	9,154,746
Property Taxes, levied for Debt Service	3,687,671
Volume of Business Taxes	5,388,135
Sales and Usage Taxes	4,377,562
Licenses and Permits	1,811,044
Intergovernmental	2,236,701
Interest	244,373
Miscellaneous	845,175
Total General Revenues	27,745,407
CHANGES IN NET ASSETS	**8,327,474**
Net Assets, As Restated, Beginning of Year	118,338,927
NET ASSETS – ENDING OF YEAR	**$ 126,666,401**

See accompanying Notes to Basic Financial Statements.

	GENERAL FUND	HEAD START FUND	SALES AND USAGE TAXES FUND	ARTS CENTER FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and Investment	$ 21,343,916	$ 209,106	$ 3,376,421	$ 8,853,170	$ -	$ 11,276,356	$ 45,058,969
Cash with Fiscal Agent	-	-	-	-	13,029,841	4,045,855	17,075,696
Receivables:							
Property Taxes	-	-	-	-	442,959	-	442,959
Sales and Usage Taxes	-	-	291,257	-	-	-	291,257
Federal Grants	-	3,785,284	-	-	-	1,230,850	5,016,134
Due from Other Funds	544,753	-	-	-	-	-	544,753
Due from Governmental Units	150,287	-	-	-	-	-	150,287
Total Assets	**$ 22,038,956**	**$ 3,994,390**	**$ 3,667,678**	**$ 8,853,170**	**$ 13,472,800**	**$ 16,553,061**	**$ 68,580,055**
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Account Payable	$ 102,748	$ 272,379	$ -	$ -	$ -	$ 274,758	$ 649,885
Bonds Payable	-	-	-	-	1,069,000	-	1,069,000
Accrued Interest	-	-	-	-	239,143	-	239,143
Due to Governmental Units	356,215	-	-	-	-	-	356,215
Due to Other Funds	-	544,753	-	-	-	-	544,753
Deferred Revenues:							
Volume of Business Tax	6,899,843	-	-	-	-	-	6,899,843
Commonwealth of Puerto Rico	150,287	-	-	-	-	-	150,287
Federal Grants	-	2,403,407	-	-	-	1,488,342	3,891,749
Total Liabilities	**7,509,093**	**3,220,539**	**-**	**-**	**1,308,143**	**1,763,100**	**13,800,875**
Fund Balances:							
Reserve For:							
Encumbrances	917,394	-	-	-	-	-	917,394
Debt Service	-	-	-	-	12,164,657	-	12,164,657
Capital Projects	-	-	-	8,853,170	-	11,194,035	20,047,205
Others Purpose	544,753	773,851	3,667,678	-	-	3,595,926	8,582,208
Unreserved	13,067,716	-	-	-	-	-	13,067,716
Total Fund Balances	14,529,863	773,851	3,667,678	8,853,170	12,164,657	14,789,961	54,779,180
Total Liablilities and Fund Balances	**$ 22,038,956**	**$ 3,994,390**	**$ 3,667,678**	**$ 8,853,170**	**$ 13,472,800**	**$ 16,553,061**	**$ 68,580,055**

See accompanying Notes to Basic Financial Statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances – Government Funds (Page 19)		**$ 54,779,180**
Amount reported for Governmental Activities in the Statement of Net Assets (Page 17) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 42,888,840	
Depreciable Capital Assets	52,834,194	
Infrastructure Assets	36,157,759	
Accumulated Depreciation	(40,966,661)	
Total Capital Assets		90,914,132
Other Assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred Charges		106,077
Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:		
Community Development Block Grant Program	1,186,625	
Head Start Program	2,403,407	
Child Care Food Program	301,717	
Christmas Bonus	150,287	4,042,036
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds	(19,348,000)	
Property Taxes - Treasury Department	(6)	
Law Number 42 - MRCC	(209,569)	
LIMS - MRCC	(169,471)	
Christmas Bonus	(300,574)	
Claims and Judgments	(101,227)	
Compensated Absences	(3,046,177)	
Total Long-Term Liabilities		(23,175,024)
Total Net Assets of Governmental Activities (Page 17)		**$ 126,666,401**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	GENERAL FUND	HEAD START FUND	SALES AND USAGE TAXES FUND	ARTS CENTER FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:							
Property Taxes	$ 9,154,746	$ -	$ -	$ -	$ 3,687,671	$ -	$ 12,842,417
Volume of Business Taxes	5,388,135	-	-	-	-	-	5,388,135
Sales and Usage Taxes	-	-	3,520,876	-	856,686	-	4,377,562
Federal Assistances	-	4,204,819	-	-	-	2,248,107	6,452,926
Intergovernmental	2,243,867	-	-	-	-	2,410,739	4,654,606
Licenses and Permits	1,811,044	-	-	-	-	-	1,811,044
Interest	244,373	-	-	-	-	-	244,373
Miscellaneous	822,708	-	-	-	-	6,953	829,661
Total Revenues	**19,664,873**	**4,204,819**	**3,520,876**	**-**	**4,544,357**	**4,665,799**	**36,600,724**
EXPENDITURES:							
Current							
Mayor and Municipal Legislature	2,473,421	-	-	-	-	-	2,473,421
General Government	6,515,075	-	-	-	-	4,125,004	10,640,079
Public Safety	850,357	-	-	-	-	28,394	878,751
Public Works	1,368,214	-	-	-	-	-	1,368,214
Culture and Recreation	1,083,875	-	-	-	-	-	1,083,875
Health and Sanitation	3,123,128	-	-	-	-	-	3,123,128
Public Instruction	-	4,215,176	-	-	-	449,635	4,664,811
Human Services and Welfare	836,972	-	-	-	-	524,029	1,361,001
Urban Development	-	-	-	-	-	1,432,137	1,432,137
Capital Outlay	115,176	-	3,603,573	-	-	743,100	4,461,849
Debt Service:							
Principal	-	-	-	-	1,179,164	-	1,179,164
Interest and Other Charges	-	-	-	-	505,881	-	505,881
Total Expenditures	**16,366,218**	**4,215,176**	**3,603,573**	**-**	**1,685,045**	**7,302,299**	**33,172,311**
Excess of Revenues Over (Under) Expenditures	3,298,655	(10,357)	(82,697)	-	2,859,312	(2,636,500)	3,428,413
OTHER FINANCING SOURCES (USES):							
Transfer – In	-	-	-	-	138,118	2,276,732	2,414,850
Transfer – Out	(2,414,850)	-	-	-	-	-	(2,414,850)
Total Other Financing Sources and Uses	**(2,414,850)**	**-**	**-**	**-**	**138,118**	**2,276,732**	**-**
Net Change in Fund Balance	**883,805**	**(10,357)**	**(82,697)**	**-**	**2,997,430**	**(359,768)**	**3,428,413**
Fund Balance, As Restated, Beginning	13,646,058	784,208	3,750,375	8,853,170	9,167,227	15,149,729	51,350,767
FUND BALANCE – ENDING	**$ 14,529,863**	**$ 773,851**	**$ 3,667,678**	**$ 8,853,170**	**$ 12,164,657**	**$ 14,789,961**	**$ 54,779,180**

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See accompanying Notes to Basic Financial Statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances – Government Funds (Page 21)		**$ 3,428,413**
Amount reported for Governmental Activities in the Statement of Activities (Page 18) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	$ 4,461,849	
Depreciation Expense	(1,886,019)	
Excess of Capital Assets over Depreciation Expense		2,575,830
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds:		
Community Development Block Grant	414,368	
Head Start Program	135,066	
Child Care Food Program	301,717	
Christmas Bonus	(7,166)	843,985
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Long-Term Liabilities in the Statement of Net Assets. In the current period repayments were		1,179,164
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Christmas Bonus	14,332	
Bond Issue Costs Amortization	(16,116)	
Decrease in Compensated Absences	301,866	
Total Additional Expenses		300,082
Change in Net Assets of Governmental Activities (Page 18)		**$ 8,327,474**

See accompanying Notes to Basic Financial Statements.

1. FINANCIAL REPORTING ENTITY

A. Organization

The **Municipality of Fajardo, Puerto Rico (Municipality)** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the **Municipality** is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable (blended component units), and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The primary government consists of all funds, departments, boards and agencies that are not legally separate from the **Municipality** and for which the **Municipality** is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. Section 2600 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards* requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB Codification describes the criteria for determining which organizations, functions, and activities should be considered part of the **Municipality** for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the **Municipality**'s ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the **Municipality**.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the **Municipality**'s balance; and discrete – presentation of the component unit's financial data in column separate from the **Municipality**'s balances and transactions.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The basic financial statements of the **Municipality** have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units (USGAAP). The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental type.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The financial information of the **Municipality** is presented in this report as follows:

Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the **Municipality**'s financial activities.

Government-wide Financial Statements (GWFS)

The GWFS (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the **Municipality**'s governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Assets* presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints are placed on them that are imposed by external parties or by laws or regulations. Designations solely imposed by the **Municipality**'s management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the **Municipality**'s policy is to use the restricted resources first.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the **Municipality**'s funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, rather than the previous financial model's fund types. This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the **Municipality**'s actual experience conforms to the budgeted fiscal plan.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

The **Municipality** reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The GWFS are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Subject to the additional rules and limitations detailed below, revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchanges-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying GWFS include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The **Municipality** groups its non-exchange transactions into the following four classes in the basic financial statements:

Derived Tax Revenues – in this revenue, which result from assessments that the **Municipality** places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

Imposed Non-exchange Revenues – in this revenue (such as property taxes and volume of business taxes), which result from assessments made by the **Municipality** on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and volume of business taxes are recognized as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government Mandated Non-exchange Transactions – in this revenue (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For part of the grants, the **Municipality** must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary Non-exchange Transactions – in this revenue (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

Governmental Funds Financial Statements

The GFFS are reported 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. 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 these purposes, the **Municipality** considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Significant revenues subject to accrual include federal grants and sales and usage taxes. Revenues that the **Municipality** earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2010, all revenues sources met this availability criterion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Property taxes, volume of business taxes, licenses and permits, 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. All other revenue items are considered to be measurable and available only when cash is received by the **Municipality**.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to Section N50 of the GASB Codification *Nonexchange Transactions,* (the **Municipality** may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the **Municipality** on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

In a manner similar to GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

The **Municipality** generally accrues a governmental fund liability and expenditures (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying balance sheet – governmental funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-Term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds. Modifications to the accrual basis of accounting include:

a. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2010, which are recorded as governmental fund liabilities of June 30, 2010 which is the date when resources were available in the debt service fund.

b. Obligations from compensated absences and the estimated liability for municipal solid waste landfill post-closure care costs are recorded only when they mature (when payment is due).

c. Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying *Statement of Net Assets*. Such liabilities are recorded in the governmental funds when they mature.

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

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

The **Municipality** reports the following major governmental funds:

General Fund – This is the general operating fund of the **Municipality**. It is used to account for all financial resources, except those required to be accounted for in another fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

Sales and Usage Taxes Fund – This fund is used to account for accumulation of resources for, and the payment of special purpose obligations.

Arts Center Fund – This fund is used to account for the construction of an Arts Center.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

The non-major funds are combined in a single column in the GGFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The **Municipality**'s annually adopts the Budget Resolution for all operating funds of the **Municipality** except for certain restricted accounts. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The **Municipality**'s Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the **Municipality** (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the **Municipality**; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. **Municipality**'s Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the Budgetary Comparison Schedule – General Fund:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the Budgetary Comparison Schedule – General Fund reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

   The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

D. Assets, Liabilities, and Net Assets

1) Cash and Investment, and Cash with Fiscal Agent

The **Municipality**'s cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The **Municipality** has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico*, issued by the GDB as promulgated by Law No. 113 of August 3, 1995. The Finance Director of the **Municipality**, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and interest bearing commercial bank accounts are recognized as revenue in the General Fund. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Government, deposit in the GDB and restricted for the payment of the **Municipality**'s debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the **Municipality**'s bonds and notes issued in accordance with law.

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due 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). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2010. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The **Municipality** used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) Deferred Charges

Deferred charges in the accompanying *Statement of Net Assets* consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

5) Capital Assets

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than $10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The **Municipality** reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The **Municipality** was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the **Municipality** capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Infrastructure	10-50
Motor Vehicles	5
Machinery and Equipment	5-10

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

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2010, all Work of Art are considered inexhaustible.

Impaired capital assets that will no longer be used by the **Municipality**, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the **Municipality** are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

6) Deferred and Unearned Revenues

In the GWFS, deferred revenues arise only when the **Municipality** receives resources before it has a legal claim to them. In the GFFS, arises when one of the following situations occur: (1) potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period (unavailable revenue), and (2) the **Municipality** receives resources before it has a legal claim to them (unearned revenue).

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other long-term liabilities (e.g., vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

8) Compensated Absences

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality**'s employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. 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 of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria: (1) the **Municipality**'s obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with Section C60 of the GASB Codification, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality**'s employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2010. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

9) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-Term Liabilities includes, when appropriate, an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

10) Accounting for Pension Costs

The **Municipality** adopted the provisions of GASBS No. 50, *Pension Disclosure,* which amended GASBS No. 27, *Accounting for Pensions by State and Local Governments Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The **Municipality** accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the state government of the Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the **Municipality** participate. The **Municipality** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.

11) Landfill

State and Federal laws and regulations require the **Municipality** to place a final cover on its landfill when closed and perform certain maintenance and monitoring function at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on futures closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The **Municipality** has performed a study of the activities that need to be implemented at the **Municipality**'s landfill to comply with applicable laws and regulations. As result of this study, the **Municipality** has decided to privatize the solid waste disposal service. The **Municipality** is entitled, under the agreement, to certain revenues resulting from the use of the landfill. As part of the agreement the contractor will assume the closure and post-closure costs during the next thirty years, releasing the **Municipality** of the estimated liability for future closure and post-closure care costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

12) Net Assets/Fund Balance

Net Assets

The GWFS utilize a net assets presentation, which are categorized as follow:

- *Invested in Capital Assets, Net of Related Debt* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets. Net assets invested in capital assets, net of related debt is comprised of the following:

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation	$ 90,914,132
Outstanding Balance on Related Debt	(20,417,000)
Unspent Capital Debt Proceeds	12,360,605
Total Invested in Capital Assets, Net of Related Debt	$ 82,857,737

- *Restricted Net Assets* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Balance

The GFFS present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

- *Reserve for Encumbrances* – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

- *Reserve for Debt Service* – The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent years.

- *Reserve for Capital Projects* – Certain assets, primarily cash and investments, and cash with fiscal agent to be invested in capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.

- *Reserve for Other Purposes* – Certain assets, primarily cash of grants and contributions that are authorized to be carried over and expended in the ensuing year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Designations of fund balances are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the Municipality to designate the portion of fund balance set aside by the Municipal Legislature through the corresponding ordinance for future plans. The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance.

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

Intra-Entity Transactions – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

F. Risk Financing

The **Municipality** carries commercial insurance to cover property and 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. Also, principal officials of the **Municipality** are covered under various surety bonds. Cost of insurance allocated to the **Municipality** and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2010 amounted to approximately $367,193. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately $232,380 for workers compensation insurance covering all municipal employees for the same period.

G. Use of Estimates

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

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2010:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable,* such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011.

GASB Statement No. 59, *Financial Instruments Omnibus.* The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged.

3. CASH AND INVESTMENTS

Cash in Banks

The **Municipality**'s cash and investments at June 30, 2010 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of $62.0 million are deposits in interest bearing commercial bank accounts and GDB, and certificates of deposit in commercial banks, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Government. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Government laws.

The **Municipality** follows the practice of pooling cash. At June 30, 2010, the pool cash account in interest bearing commercial banks accounts had a balance of $45.0 million of which $21.3 million in the General Fund, $209,106 of Head Start Program, $3.4 million in the Sales and Usage Taxes Fund, $8.8 million in the Arts Center Fund, and $11.3 in Other Governmental Funds of which $2.6 million, and $0.6 million was invested in certificate of deposits in Popular Bank of Puerto Rico, Fajardo Branch, that generates an annual interest rate of 3.65%, and 3.00%, respectively. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in interest bearing accounts with commercial banks that generates an average of 2.25% annual interest rate. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Under the laws and regulations of the Government, public funds deposited by the **Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the **Municipality**'s name.

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to $13.0 million that are restricted for the payment of the **Municipality**'s debt service, as required by law. Cash with Fiscal Agent consist principally of $4.0 million in other governmental funds that are restricted for the acquisition, construction or improvement of major capital assets. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of Section C20 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the **Municipality** at June 30, 2010:

3. CASH AND INVESTMENTS (continuation)

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010, the **Municipality** has invested only in cash equivalents of $45.0 million consisting of deposit in interest bearing commercial bank accounts, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the **Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2010. Therefore, the **Municipality**'s management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the **Municipality**'s deposits is considered low at June 30, 2010.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the **Municipality** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the **Municipality** may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2010, the **Municipality** has balances deposited in commercial banks amounting to $45.0 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $17.0 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the **Municipality** through June 30, 2010. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the **Municipality**'s management has concluded that at June 30, 2010, the custodial credit risk associated with the **Municipality**'s cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The **Municipality** manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2010, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2010, the interest risk associated with the **Municipality**'s cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the **Municipality**, the **Municipality** is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the **Municipality**'s deposits is considered low at June 30, 2010.

4. RECEIVABLES

Following is the account receivables (Due from Agencies) of other governmental funds as of June 30, 2010:

	AMOUNT
CDBG	$1,221,652
Child Care Food Program	7,204
Others	1,994
Total Federal Grants	$1,230,850

5. OTHER RECEIVABLES

The due from governmental units for the fiscal year ended June 30, 2010, corresponds to the Puerto Rico Treasury Department (Christmas Bonus) for $150,287 and Property Taxes from MRCC for $442,959 of the Debt Service Fund.

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. *Interfund Receivable and Payable Balances*

Due to/from Other Funds at June 30, 2010 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General	Head Start Fund	$ 544,753
TOTAL		$ 544,753

B. *Interfund Transfers*

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	$ 138,118	Debt Payment
General Fund	Other Governmental Fund	2,276,732	Equity Transfer
Total		$ 2,414,850	

7. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2010, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	AMOUNT
PR Department of Labor	$ 140,831
PR Water and Sewer Authority	11,772
Retirement System Administration	202,722
General Service Administration	890
Total Due to Governmental Units	$ 356,215

8. DEFERRED AND UNEARNED REVENUES

Government-wide *Statement of Net Assets* report *deferred* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *deferred revenues* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenues* and *unearned revenues* reported in the basic financial statements were as follows:

	UNAVAILABLE	UNEARNED
Volume of Business Taxes	$ -	$ 6,899,843
Other Governmental Funds	1,488,342	-
Head Start	2,403,407	-
Christmas Bonus	150,287	-
Total Deferred/Unearned Revenue	$ 4,042,036	$ 6,899,843

9. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2010 was as follows:

DESCRIPTION	BALANCE JUNE 30, 2009	ADJUSTMENT	RECLASSI-FICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2010
Non-Depreciable Capital Assets:						
Land	$ 35,708,453	$ 4,145,000	$ -	$ 2,269,772	$ -	$ 42,123,225
Construction in Progress	-	-	-	-	-	-
Others	765,615	-	-	-	-	765,615
Total Non-Depreciable Capital Assets	36,474,068	4,145,000	-	2,269,772	-	42,888,840
Depreciable Capital Assets:						
Buildings and Improvements	42,795,602	-	-	1,471,586	-	44,267,188
Infrastructure	36,157,759	-	-	-	-	36,157,759
Machinery and Equipment	5,093,524	-	-	-	-	5,093,524
Motor Vehicles	2,752,991	-	-	720,491	-	3,473,482
Total Depreciable Capital Assets	86,799,876	-	-	2,192,077	-	88,991,953
Less Accumulated Depreciation:						
Buildings and Improvements	(13,512,289)	-	-	(747,809)	-	(14,260,098)
Infrastructure	(18,751,653)	-	-	(555,368)	-	(19,307,021)
Machinery and Equipment	(4,215,032)	-	-	(360,768)	-	(4,575,800)
Motor Vehicles	(2,601,668)	-	-	(222,074)	-	(2,823,742)
Total Accumulated Depreciation	(39,080,642)	-	-	(1,886,019)	-	(40,966,661)
Total Depreciable Capital Assets (Net)	47,719,234	-	-	306,058	-	48,025,292
CAPITAL ASSETS, NET	$ 84,193,302	$ 4,145,000	$ -	$ 2,575,830	$ -	$ 90,914,132

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
General Government	$ 678,967
Public Safety	75,441
Public Works	773,268
Culture and Recreation	94,301
Urban Development	264,042
Total Depreciation Expenses	$ 1,886,019

10. GENERAL LONG-TERM DEBTS

A. General Obligations Bonds

The principal long-term obligations of the **Municipality** are general obligation bonds issued to finance the construction and improvements of public facilities. The **Municipality**'s obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 11).

General obligations bonds as of June 30, 2010, are comprised of the following individual issues:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
General Obligation Bonds – Property Taxes:			
$11,130,000, Series 1997-98 - General Construction	2016	5.19% to 6.34%	$ 6,350,000
$14,440,000, Series 2006-07 - General Construction	2031	5.59% to 7.00%	13,832,000
$370,000, Series 1994-95 - General Construction	2019	6.106% to 8.206%	235,000
Total General Obligation Bonds			**$ 20,417,000**

10. GENERAL LONG-TERM DEBTS (continuation)

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the **Municipality**'s tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2010, the **Municipality** had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The **Municipality** debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the **Municipality**.

C. Other Long-Term Debts

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2009	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2010	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Property Taxes-Treasury Dept.	$ 978	$ -	$ (972)	$ 6	$ 6	$ -
Law Number 42 - MRCC	213,783	-	(4,214)	209,569	4,480	205,089
LIMS - MRCC	274,449	-	(104,978)	169,471	111,317	58,154
MRCC Liquidation	310,570	-	(310,570)	-	-	-
Christmas Bonus	314,906	300,574	(314,906)	300,574	300,574	-
Claims and Judgments	101,227	-	-	101,227	-	101,227
Compensated Absences	3,348,043	101,007	(402,873)	3,046,177	1,989,373	1,056,804
TOTAL	$ 4,563,956	$ 401,581	$ (1,138,513)	$ 3,827,024	$ 2,405,750	$ 1,421,274

Property Taxes – Treasury Department

This amount represents the excess of advance property taxes over collection previously administered by Puerto Rico Treasury Department. On July 1, 2002, the enacted Law Number 29, authorized that part of the excess of revenue from LOTO should be used to amortized this debt. Annually the Treasury Department should notify to the **Municipality** the amount applied to the debt.

Borrowing from MRCC

On July 1, 2002, the **Municipality** entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The original debt was $235,722 to be paid during 30 years plus annual interest of 6.1875%.

MRCC Liquidation

The total amount of $310,570 to be paid during fiscal year 2009-2010 without interests corresponded to the Fiscal Year 2008-2009 final liquidation of property taxes.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2010 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2010.

10. GENERAL LONG-TERM DEBTS (continuation)

Claims and Judgments

This amount represents the amount accrued for possible claims arising from litigations.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the **Municipality**'s commitment to fund such costs from future operations.

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2010:

DESCRIPTION	BALANCE JULY 1, 2009	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2010	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	$ 21,421,000	$ -	$ (1,004,000)	$ 20,417,000	$ 1,069,000	$ 19,348,000
Others Debts	4,563,956	401,581	(1,138,513)	3,827,024	2,405,750	1,421,274
TOTAL	$ 25,984,956	$ 401,581	$ (2,142,513)	$ 24,244,024	$ 3,474,750	$ 20,769,274

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The **Municipality** believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the long-term debts outstanding as of June 30, 2010 are as follows:

	General Obligation Bonds		Other Long-Term Obligations			
YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PRINCIPAL	TOTAL INTEREST
2011	$ 1,069,000	$ 894,048	$ 2,405,750	$ 24,567	$ 3,474,750	$ 918,615
2012	1,136,000	1,274,076	62,915	17,757	1,198,915	1,291,833
2013	1,208,000	1,199,978	5,060	12,319	1,213,060	1,212,297
2014	1,301,000	1,119,988	5,408	12,000	1,306,408	1,131,988
2015	1,391,000	964,852	5,715	11,663	1,396,715	976,515
2016-2020	4,639,000	4,060,132	34,437	52,452	4,673,437	4,112,584
2021-2025	3,197,000	2,852,605	46,706	40,186	3,243,706	2,892,791
2026-2030	4,199,000	1,565,445	63,343	23,549	4,262,343	1,588,994
2031-2034	2,277,000	249,620	1,197,690	3,759	3,474,690	253,379
TOTAL	**$ 20,417,000**	**$ 14,180,744**	**$ 3,827,024**	**$ 198,252**	**$ 24,244,024**	**$ 14,378,996**

11. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 12).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality**. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

12. PROPERTY TAXES

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

The MRCC is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the **Municipality** of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the **Municipality** based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the **Municipality** and amounts actually collected from taxpayers. 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 MRCC remits to the **Municipality** property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2010 resulted in a receivable of $442,959 for the Debt Service Fund.

The tax rate for fiscal year 2010 is 10.43% for real property and 8.43% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.40% and 7.40%, respectively, belongs to the **Municipality**. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the **Municipality**'s basic tax rate that is appropriated for general purposes and therefore accounted for through 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 a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the **Municipality** of 3.40% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 11). The **Municipality** hasn't reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first $15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than $3,500 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Treasury Department to the **Municipality** was frozen as of January 1, 1992.The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with an annual net sales volume of less than $150,000. The MRCC advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

13. VOLUME OF BUSINESS TAXES

Volume of Business Taxes is recorded in the fiscal year in which payments is due and, accordingly, represents taxes which are due and uncollected at June 30, 2010. The Volume of Business Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the **Municipality**, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 23 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 23. The rates of municipal license in the **Municipality** are as follow:

a. 1.50% for financial institutions and savings and loan associations.

b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

14. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the **Municipality** and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Use Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;

b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2010, but pertaining to the current year period.

15. CONSTRUCTION EXCISE TAXES

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

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

15. CONSTRUCTION EXCISE TAXES (continuation)

Any construction project, which doesn't qualify for any of the exceptions presented below, will pay a tax of 4% of the total cost amount of the project. The exceptions for the 4% Construction Tax imposed by the **Municipality** are as follow:

a. 5.00% of the total cost of the project for any construction involving movement of land.

b. 2.00% for all low income housing projects, and educational institutions of primary and secondary level.

c. When construction is for a residence, made of at least 50% concrete, and said residence is not part of a housing project, urbanization, condominium, or any project of a similar nature; a fixed rate of $25.00 will be collected up to a maximum total construction cost of $50,000. In addition, for every $1,000 in excess of the $50,000 in total construction costs, a $5.00 rate will be collected.

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

16. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

17. PENSION PLAN

Description of the Plan

Employees of the **Municipality** participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

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 at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, 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 up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first $550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The **Municipality** is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

17. PENSION PLAN (continuation)

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Government. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

If at time of retirement accumulated benefits amount to $10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600 8.275% of gross salary over $6,600
Hired on or after April 1, 1990	8.275% of gross salary

Annual Contribution

Total employee contributions to the above-mentioned plans during the year ended June 30, 2009, 2008 and 2007 amounted to approximately $1,094,023. The **Municipality**'s contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2010	$ 234,450	$ 176,736
2009	240,922	175,835
2008	253,525	171,756

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

18. CONTINGENCIES

A. Claims and Judgments

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality**'s activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims, with the exception of three (3) lawsuits related to forceful expropriation, to which the legal counsel has estimate a potential loss of $101,227. Accordingly, the financial statements include this provision in the Long-Term Liabilities.

B. Federal Grants

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

19. COMMITMENTS

A. Operating Leases

The **Municipality** leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2010, amounted to approximately $50,000. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Construction

The **Municipality** had commitments of approximately of $0.5 million for the construction, improvements, or renovation of several facilities.

20. NET ASSETS/FUND BALANCES RESTATEMENTS

A. Net Assets Restatements

During the year, the **Municipality** adjusted the governmental net assets for reclassification of capital assets inventory and the corresponding accumulated depreciation. The following schedule reconciles the June 30, 2009 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2009, for Governmental Activities.

NET ASSETS RESTATEMENT	
Net Assets, as Previously Reported, June 30, 2009	$ 115,883,357
Cancelation of Debt	310,570
Adjustment on Certificate of Deposit Investment	(2,000,000)
Adjustment to Capital Assets	4,145,000
Net Assets, as Restated, July 1, 2009	$ 118,338,927

20. NET ASSETS/FUND BALANCES RESTATEMENTS

B. Fund Balances Restatements

The following reconciles the June 30, 2009 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2009 for the various funds:

	GENERAL FUND	SALES AND USAGE TAXES FUND	OTHER GOVERNMENTAL FUNDS
Fund Balances, as Previously Reported, June 30, 2009	$ 15,646,058	$ -	$ 18,900,104
Transfer of Fund Balance for Sales and Usage Taxes	-	3,750,375	(3,750,375)
Adjustment on Certificate of Deposit Investment	(2,000,000)	-	-
Beginning Fund Balances, As Restated, July 1, 2009	$ 13,646,058	$ 3,750,375	$ 15,149,729

END OF NOTES

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget
	Original	Final		
BUDGETARY FUND BALANCE, JULY 1, 2009	**$ 15,037,282**	**$ 15,037,282**	**$ 15,037,282**	**$ -**
Resources (Inflows):				
Property Taxes	8,336,793	8,336,793	9,154,746	817,953
Volume of Business Taxes	5,056,750	4,734,750	5,388,135	653,385
Intergovernmental Revenues	2,480,629	2,243,489	2,243,867	378
Licenses and Permits	1,215,500	1,529,922	1,811,044	281,122
Interests	1,200,000	1,854,851	244,373	(1,610,478)
Miscellaneous	1,142,087	1,301,733	822,708	(479,025)
Total Resources (Inflows)	**19,431,759**	**20,001,538**	**19,664,873**	**(336,665)**
Amounts Available for Appropriation	34,469,041	35,038,820	34,702,155	(336,665)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	2,881,317	3,392,817	2,823,246	569,571
General Government	6,842,689	7,631,088	6,532,882	1,098,206
Public Safety	1,266,497	1,266,997	863,251	403,746
Public Works	1,657,652	1,651,929	1,395,213	256,716
Culture and Recreation	852,247	1,309,272	1,209,078	100,194
Health and Sanitation	4,284,425	3,918,425	3,123,128	795,297
Human Services and Welfare	1,497,832	1,671,016	895,241	775,775
Urban Development	-	27,587	-	27,587
Capital Outlays	149,100	227,924	140,573	87,351
Transfer to Other Funds	-	2,414,850	2,414,850	-
Total Charges to Appropriations	19,431,759	23,511,905	19,397,462	4,114,443
BUDGETARY FUND BALANCE, JUNE 30, 2010	**$ 15,037,282**	**$ 11,526,915**	**$ 15,304,693**	**$ 3,777,778**

See accompanying Notes to Required Supplementary Information.

NOTE A Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 46)	$ 34,702,155
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	(15,037,282)
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21)	$ 19,664,873
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 46)	$ 19,397,462
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(917,394)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	301,000
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(2,414,850)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21)	$ 16,366,218

NOTE B Explanation of Differences Between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2010	$ 15,304,693
Timing Differences:	
Encumbrance	917,394
Cancelation of Prior Year Encumbrance	269,285
Restriction from Deferred Revenues	(2,506,262)
Perspective Differences:	
Due from Other Funds not Available	544,753
Fund Balance, June 30, 2010	$ 14,529,863

END OF THIS SECTION

PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
USDA – Rural Development:			
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program (USDA)	10.558	241-2009-029	$ 10,560
		241-2010-247	420,780
Total U.S. Department of Agriculture			431,340
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/ Entitlement Grants (CDBG) (Cluster)	14.218		641,457
Community Development Block Grants/ Entitlement Grants (CDBG-R) – Recovery Act Funded (Cluster)	14.253		205,703
Subtotal Community Development Block Grants/ Entitlement Grants (CDBG) (Cluster)			847,160
Section 8 Housing Choice Voucher Program	14.871		466,342
Pass-Through Puerto Rico Family Department:			
Homelessness Prevention and Rapid Re-Housing Program (HRPR) – Recovery Act Funded	14.257		44
Pass-Through Puerto Rico Health Department:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	2010-DS-0354	57,643
Total U.S. Department of Housing and Urban Development			1,371,189
U. S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant	93.575	2008-2009-020	105,883
Head Start Program (Cluster)	93.600	241000-04F-2009	3,696,645
		241000-04F-2010	225,969
ARRA – Head Start Program (Cluster)	93.708	241-0000-04F-2010	155,280
ARRA – Early Head Start Program (Cluster)	93.709	N/AV	137,282
Subtotal Head Start Program (Cluster)			4,215,176
Total U.S. Department of Health and Human Services			4,321,059
U.S. Department of Transportation:			
Federal Transit – Formula Grants (Urbanized Area Formula Program) - ARRA	20.507		162,172
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$6,285,760**

See accompanying Notes to Schedule of Expenditures of Federal Awards.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the **Municipality of Fajardo, Puerto Rico (Municipality)**. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **Municipality**, it is not intended to and does not present the financial position, or change in net assets of the **Municipality**.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the **Municipality**'s Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Fund as follows: Head Start - $4,215,176 and Other Governmental Funds $2,070,584.

END OF NOTES

CPA DIAZ-MARTINEZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Fajardo, Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2010, which collectively comprise the **Municipality**'s basic financial statements and has issued our report thereon dated February 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identifies. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiency in internal control over financial reporting that we consider to be material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **Municipality**'s basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-II-01 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality**'s basic 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.*

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Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the **Municipality**'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, Mayor, Municipal Legislature, Office of the Commissioner of Municipal Affairs, 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. However, this report is a matter of public record and its distribution is not limited.

CPA Díaz Martínez, PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
February 23, 2011

2586526

CPA DIAZ-MARTINEZ, PSC

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

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

Compliance

We have audited **Municipality of Fajardo, Puerto Rico (Municipality)**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality**'s major federal programs for the fiscal year ended June 30, 2010. **Municipality**'s major federal programs are identified in the summary of auditors' result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality**'s management. Our responsibility is to express an opinion on **Municipality**'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133. 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**'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**'s compliance with those requirements.

In our opinion, the **Municipality** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

Management of **Municipality** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Municipality**'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality**'s internal control over compliance.

CPA℠

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

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

This report is intended solely for the information and use of the management, Mayor, Municipal Legislature, Office of the Commissioner of Municipal Affairs, 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. However, this report is a matter of public record and its distribution is not limited.

CPA Díaz-Martínez, PSC

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License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
February 23, 2011

2586527

PART III

FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	☒ Unqualified Opinion ☐ Adverse Opinion	☐ Qualified Opinion ☐ Disclaimer Opinion
Internal control over financial reporting:		
• Material weakness (es) identified?	☒ Yes	☐ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major programs:		
• Material weakness (es) identified?	☐ Yes	☒ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported
Type of auditors' report issued on compliance for Major Programs:	☒ Unqualified Opinion ☐ Adverse Opinion	☐ Qualified Opinion ☐ Disclaimer Opinion
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?	☐ Yes	☒ No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program (USDA)
14.218	Community Development Block Grants/Entitlements Grant (Cluster)
14.253	ARRA – Community Development Block Grants/Entitlements Grant (Cluster)
20.507	ARRA – Federal Transit – Formula Grants (Urbanized Area Formula Program)
93.600	Head Start Program (Cluster)
93.708	ARRA – Head Start Program (Cluster)
93.709	ARRA – Early Head Start Program (Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs:	$300,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2010-II-01**
TYPE OF FINDING	**MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS**
CRITERIA	Codification of Statement on Auditing Standards 115, Communicating Internal Control Related Matters Identified in an Audit (AU § 325.17) states that deficiencies identified during the audit that upon evaluation are considered significant deficiencies or material weaknesses under this Section should be communicated, in writing, to management and those charged with governance as a part of each audit. Paragraph 5.10 of the *Government Auditing Standards* states the follows: **5.10** For financial audits, including audits of financial statements in which auditors provide an opinion or disclaimer, auditors should report, as applicable to the objectives of the audit, and based upon the audit work performed, (1) significant deficiencies in internal control, identifying those considered to be material weaknesses; (2) all instances of fraud and illegal acts unless inconsequential; and (3) violations of provisions of contracts or grant agreements and abuse that could have a material effect on the financial statements.
CONDITION	During our audit we noted material misstatements that required significant adjustments to beginning Net Assets/Fund Balance in the financial statements prepared by the **Municipality**.
CAUSE	The **Municipality** incorrectly presented the amount of revenues in the General Fund.
EFFECT OR POSIBLE EFFECT	The financial statements prepared by the **Municipality** required a restatement of the beginning balance of the Net Assets/Fund Balance.
RECOMMENDATION	We recommend the **Municipality** to design and implement internal control procedures in order to ascertain that all revenues are adequately recognized and presented.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	System and procedures will be reviewed.
IMPLEMENTATION DATE	June 30, 2011
RESPONSIBLE PERSON	Mrs. María I. Colón, Finance Director

continue

NO MATTER IS REPORTED.

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2009

Finding Number	**2009-III-01**	**Allowable Cost/Cost Principles** Monitoring and documentation of procedures related to the Housing Rehabilitation Assistance Program.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the US Department of Housing and Urban Development.	

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE