



MUNICIPIO DE HORMIGUEROS
Estado Libre Asociado de Puerto Rico

Honorable Pedro J. García Figueroa
Alcalde

28 de enero de 2010

Sr. Juan C. Cruz Rodríguez
Comisionado Interino
O C A M
San Juan, Puerto Rico

Estimado señor Cruz:

Saludos cordiales del gobierno municipal de Hormigueros, "Corazón del Oeste".

Incluimos copia del Estado Financiero, incluyendo el informe requerido en la Circular OMB A-133, correspondiente al año fiscal terminado el 30 de junio de 2009.

Estamos a su orden para cualquier información adicional.

Cordialmente,

Pedro J. García Figueroa
Alcalde

PJG/MA/clr

Anejo

Recibido por: _____
Fecha: _____

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Hormigueros: Corazón del Oeste



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

***BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133)***

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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COMISIONA DEL CONSIGLIO
DE REGALOS Y HONORARIOS
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**Hon. Pedro J. García-Figueroa
Mayor**

**Mrs. Marinelda Acosta
Finance Director**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

Table of Contents

<u>FINANCIAL SECTION</u>	<u>PAGE</u>
Independent Auditors' Report	1-2
Management Discussion and Analysis	3-14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Governmental Funds Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Notes to Financial Statements	21-49
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	50
Notes to Required Supplementary Information - Budgetary Comparison Schedule – General Fund	51-52
Supplementary Information:	
Financial Data Schedule	53-54
Note to Supplementary Information – Financial Data Schedule	55
<u>SINGLE AUDIT SECTION</u>	
Supplemental Information:	
Schedule of Expenditures of Federal Awards	56
Notes to Schedule of Expenditures of Federal Awards	57
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	58-59
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	60-61
Schedule of Findings and Questioned Costs	62-66
Schedule of Status of Prior Years Audit Findings and Questioned Costs	67

FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Hormigueros (the Municipality) as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

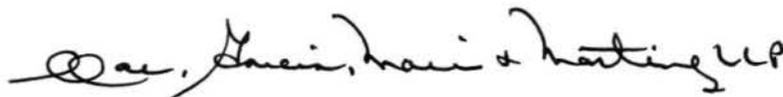
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financing reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Hormigueros as of June 30, 2009 and for the 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 December 31, 2009, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Discussion and Analysis on pages 3 through 14 and Budgetary Comparison Schedule - General Fund on page 50 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.

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 the 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. The Schedule of Expenditures of Federal Awards 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. The Financial Data Schedule supplementary information on pages 53 through 54 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, appearing to read "Cae. Garcia, Davis & Hastings CP".

San Juan, Puerto Rico
December 31, 2009

Stamp 2474927 was affixed
to the original.

MANAGEMENT DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

The following discussion and analysis of the Municipality of Hormigueros' financial performance will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements, which follow this analysis.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

Information reported in the government-wide statements is based on the economic resources measurement focus and the accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2009 by \$32,882,599 (net assets). This represents an increase of 1% with respect to the fiscal year 2007-2008.
- Revenues and expenses decreased by 9% and 3%, respectively, in comparison with the previous year.
- The change in net assets decreased 88% compared to the change in net assets of the year 2007-2008.

Highlights for Fund Financial Statements

Fund financial statements present information of the most significant funds of the Municipality based on the current financial resources measurement focus and the modified accrual basis of accounting:

- At June 30, 2009, a net change of (\$3,196,285) in the fund balances of the Municipality's governmental funds resulted in a reported combined ending fund balances of \$7,311,380. Approximately 6% of the total combined fund balances is unreserved.
- Total fund balance of the general fund decreased by 57% and the unreserved fund balance decreased 79% in comparison to fiscal year 2007-2008.

General Financial Highlights

- The investment in capital assets as of June 30, 2009 was \$43,206,821 (net of depreciation).
- Long-term debt decreased to \$19,151,644; approximately 4% with respect to prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$1,006,612.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

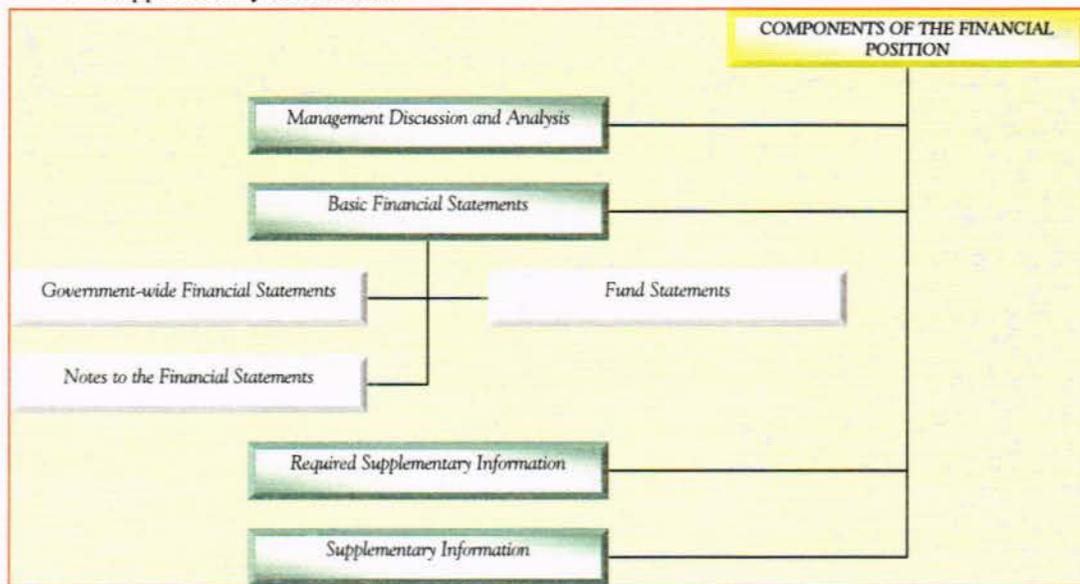
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components:

- management discussion and analysis (presented here)
- basic financial statements
- required supplementary information
- 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:

➤ **Government-Wide 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 capital assets 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

The government-wide statements reports as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, 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 comply 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 financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

➤ ***Required supplementary information***

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

➤ ***Supplementary information***

The required supplementary information is followed by a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

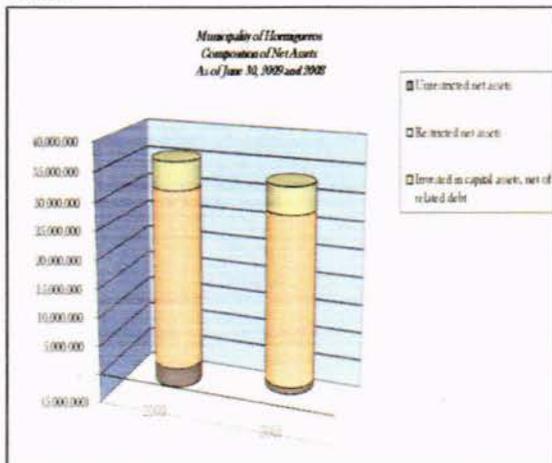
Net Assets

The following table presents a summary of the Statement of Net Assets as of June 30, 2009 and 2008:

TABLE 1

<i>Summary Statement of Net Assets As of June 30,</i>		
	Governmental Activities	
	2009	2008
Assets		
Current and other assets	\$ 11,796,481	\$ 15,305,763
Capital assets	43,206,821	40,592,144
Total assets	\$ 55,003,302	\$ 55,897,907
Liabilities		
Current and other liabilities	\$ 2,969,059	\$ 3,258,769
Long-term liabilities	19,151,644	19,922,105
Total liabilities	22,120,703	23,180,874
Net assets		
Invested in capital assets, net of related debt	31,309,738	29,181,346
Restricted	4,843,166	4,650,211
Unrestricted	(3,270,305)	(1,114,519)
Total net assets	\$ 32,882,599	\$ 32,717,033

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the assets of the Municipality exceeded its liabilities by \$32,882,599 representing an increase of 1% with respect to the year 2007-2008. The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt 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. 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 constraints established by debt covenants, enabling legislation or other legal requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

As of June 30 2009, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long-term obligations such as compensated absences and debts to CRIM 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. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt section of net assets. Therefore, they are reported as part of the unrestricted net assets section.

Changes in net assets

The following table summarizes the changes in net assets for the fiscal years ended 2009 and 2008:

TABLE 2

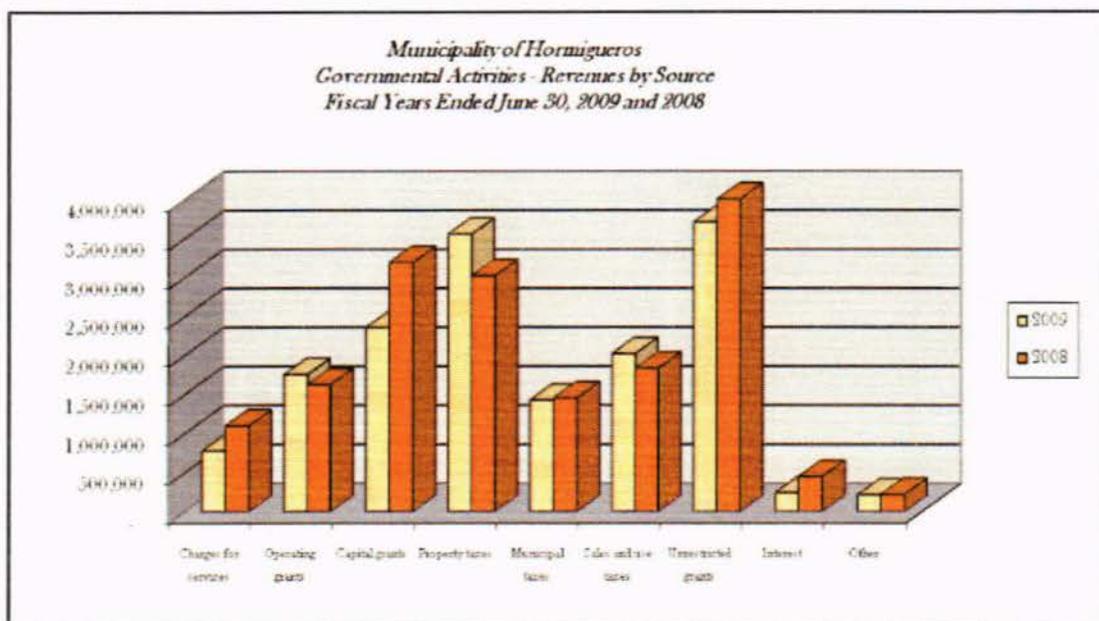
<i>Summary of Changes in Net Assets As of June 30,</i>		
	Governmental Activities	
	2009	2008
Program revenues:		
Fees, fines and charges for services	\$ 775,155	\$ 1,096,604
Operating grants and contributions	1,751,469	1,625,238
Capital grants and contributions	2,353,098	3,189,421
General revenues:		
Property taxes	3,552,363	3,018,725
Municipal license taxes	1,424,373	1,452,164
Sales and uses taxes	2,017,806	1,832,419
Grants and contributions not restricted to specific programs	3,706,351	4,766,135
Interest	239,038	446,005
Other	212,661	218,072
Total revenues	16,032,314	17,644,783
Expenses:		
General government	6,913,065	7,036,647
Public works and sanitation	3,257,302	3,803,846
Public safety	815,690	787,015
Culture and recreation	1,611,361	1,396,023
Health	385,630	370,919
Housing, welfare and community development	2,031,181	2,209,411
Education	31,606	33,323
Interest on long-term debt	820,918	653,264
Total expenses	15,866,753	16,290,448
Change in net assets	165,561	1,354,335
Net assets-beginning of year	32,717,038	31,362,703
Net assets-end of year	\$ 32,882,599	\$ 32,717,038

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

FIGURE 1



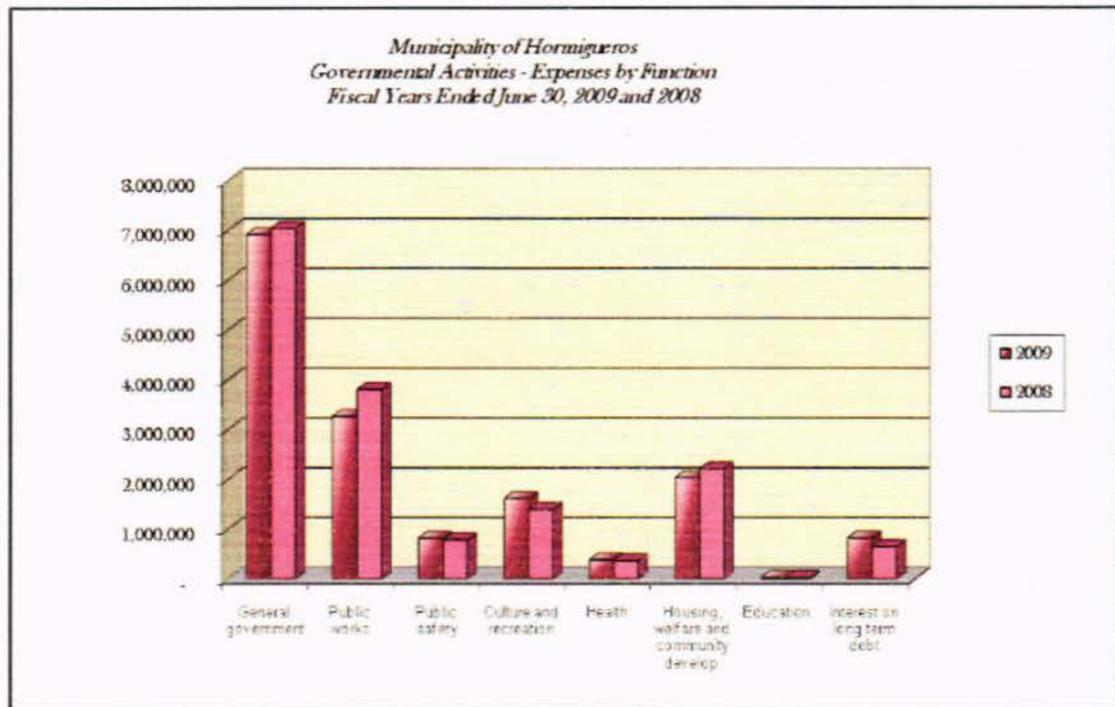
Approximately 26% of the Municipality's revenues came from operating and capital grants, 23% from grants and contributions not restricted to specific programs and 22% from property taxes. Revenues decreased by 9% in comparison with the year 2007-2008. The net decrease in revenues of 9% is mostly affected by a combination of the following: (1) a 46% decrease in interest revenue due to redemption of certificates of deposit, (2) a 29% decrease in fees, fines and charges for services due to a decrease in construction taxes collected, (3) a 26% decrease in capital grants mostly due to non recurrent revenues received for capital improvements in prior year such as CDBG and Lavadero Sanitary Sewer System revenues designated for specific projects, (4) a 22% decrease in unrestricted operating grants due to a decrease in current municipal equalization fund sent by CRIM and non-recurrent revenues from a law suit claiming municipal equalization fund revenues from prior years that was received on the prior year, and (5) a 17% increase in property taxes collected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are: general government representing approximately 44%, public works and sanitation with 21%, and housing, welfare and community development with 13%. Program revenues of the Municipality covered 31% of total expenses.

Expenses decreased 3% in comparison with the previous year. This includes an increase of 26% in interest on long-term debt (due to interest payments of new bonds), an increase of 15% in culture and recreation (due to activities celebrated for the community such as Hormigueros' Saint Feasts and "Porta del Sol" tourism activities), a decrease of 14% in public works and sanitation (due to less non capitalizable expenditures such as fuel, repairs and maintenance, and landfill operations), and an 8% decrease in housing welfare and community development (due to less donations from operational funds and a decrease in CDBG welfare expenditures).

As noted previously, the decrease in revenues combined with a small decrease in expenses resulted in a decrease in net assets of approximately 88% compared with the change in net assets reported in the 2007-2008 Statement of Activities. The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

TABLE 3

<i>Net Cost of Municipality's Governmental Activities</i>				
<i>Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
General government	\$ 6,913,065	\$ 7,036,647	\$ (5,674,381)	\$ (5,276,536)
Public works and sanitation	3,257,302	3,803,846	(1,072,067)	(1,064,215)
Public safety	815,690	787,015	(663,300)	(736,130)
Culture and recreation	1,611,361	1,396,023	(1,496,976)	(1,374,124)
Housing, welfare and community development	2,031,181	2,209,411	(842,153)	(870,674)
Other	1,238,154	1,057,506	(1,238,154)	(1,057,506)
	<u>\$ 15,866,753</u>	<u>\$ 16,290,448</u>	<u>\$ (10,987,031)</u>	<u>\$ (10,379,185)</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$775,155) and other governments and organizations that subsidized certain programs with grants and contributions (\$4,104,567). The \$10,987,031 net cost of services was fully covered by other general revenues including property, municipal license, and sales and use taxes.

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, 2009, the governmental funds reported combined ending fund balances of \$7,311,380, a net decrease of \$3,196,285 in comparison with the prior year. This net decrease was caused primarily by a decrease of (\$1,735,715) in the General Fund, and a decrease of (\$1,048,460) in the Commonwealth Legislative Resolutions funds due to amounts received on prior year for capital projects spent on current year. Of the total combined fund balances, \$468,504 (6%) constitutes unreserved fund balance, including \$313,166 designated for subsequent year expenditures. The remainder of the fund balance is reserved to indicate that it is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents 6% of total combined ending fund balance. For the year ended June 30, 2009, the fund balance of the general fund decreased by (\$1,735,715). The key combined factors of this change is an increase of 50% in property taxes revenues, 44% decrease in interest revenues, 30% decrease in construction permits revenue, 20% decrease in Intergovernmental Commonwealth Government revenues combined with an increase of 19% in capital outlays expenditures with respect to the 2007-2008 year. In addition, this result includes the net effect of a fund balance readjustment of \$1,340,351. This represents a readjustment of current year budget with the prior year's fund balance resources, approved by the Municipal Legislature.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

General fund budgetary highlights

The general fund original budget for the fiscal period 2009-2008 presented an increase of 15% with respect to the prior year budget due to an increase in the estimated amount of property taxes, sales and use taxes, fees fines and charges for services, and interest revenues.

Amendments to the original budget are approved by the Municipal Legislature. During the current fiscal year amendments to budget expenditures for a net amount of \$1,030,474 were approved. Of this, a net amount of \$1,340,351 represented a readjustment of the current year budget with the prior year's budgetary surplus and (\$309,877) were reduced due to uncollectible resources. Actual revenues exceeded the revised budgeted revenues by \$176,036. The most significant variances were \$198,132 from intergovernmental subsidies, (\$169,250) from interest revenues, and \$99,056 from property taxes. The Municipality reported a positive variance of \$56,652 between revised budgeted appropriations and actual expenditures, but ended with a total net negative variance of (\$1,106,612).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$43,206,821 (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 6% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2009	2008
Non-depreciable assets:		
Land	\$ 7,702,495	\$ 7,577,389
Construction in progress	9,700,814	7,065,033
Depreciable assets:		
Land improvements	693,722	729,726
Buildings and buildings improvements	15,345,349	15,308,633
Infrastructure	6,440,813	6,777,214
Vehicles, machinery and equipment	3,323,628	3,134,149
Total	\$ 43,206,821	\$ 40,592,144

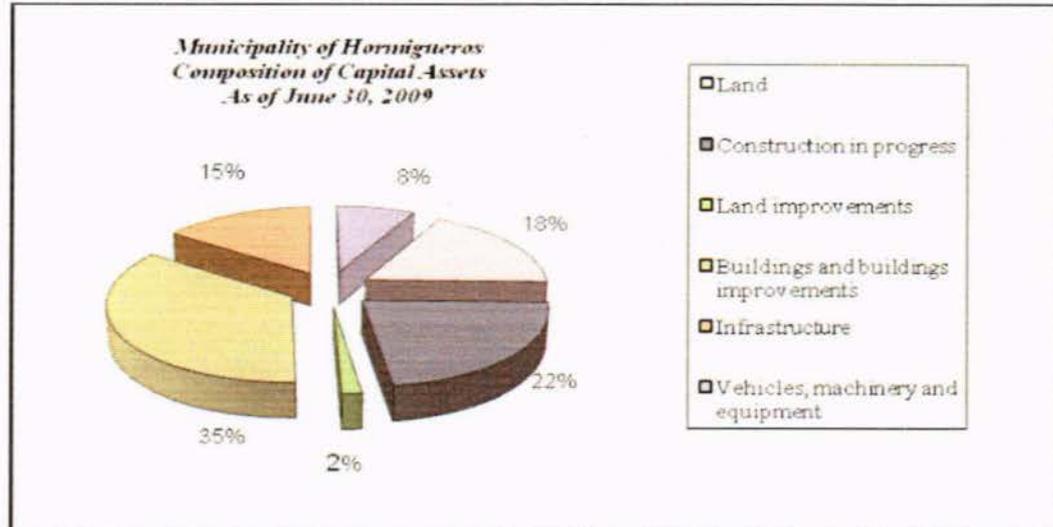
Certain projects are still construction in progress as of June 30, 2009. The most significant of these projects are the construction of the future Elderly Services Center, the construction of "Lavadero Sanitary Sewer System", the construction of Lavadero's Multiuse Center and the remodeling of the Fine Arts School building with reported costs of \$1,566,256, \$4,510,545, \$774,408, and \$1,101,625, respectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

Figure 3



The Municipality's fiscal year 2009-2010 capital budget calls for a significant amount of new and continuous projects including the continuance of the construction of the Elderly Services Center "Julio Perez Irizarry" in Verdum area, which is being financed through grants from CDBG, Commonwealth Legislature Resolutions and Citizen Participation Funds. Other projects that will be continued in this fiscal year are the construction of the Lavadero Multiple Purpose Center, the remodeling of the School of Fine Arts building, and the reconstruction of various basketball courts in different communities.

Other projects that will be developed in the next fiscal year are the reconstruction of the San Romualdo and Hoya Grande community centers, the construction of "Vista a la Bahia" square in Hoya Grande, the inaugural ceremony of the electronic library in Carretera Nueva, the construction of a recreational park for kids, the construction of a 400 meters athletic track, the termination of the improvements of the Hermanos Miura stadium with the inaugural ceremonies of the Arts and Sports Immortals' Gallery and the Natural History Museum in the restored Antique Fire Station. Other infrastructure projects in different communities will be initialized and completed. The Municipality will continue its public policy of land acquisition for the development of necessary projects such as the extension of the Municipal Graveyard; promote the development of low cost housing, and commercial spaces. "Lavadero de Oro" is a significant project that is in progress for this fiscal year that is composed of eight housing buildings of social interest requiring an investment of \$6,000,000. This project will be carried out with funds granted by the Puerto Rico Department of Housing. The Development of the Ecoturistic Center in the Eureka Station is also in planning stage. All these projects will be financed with other Commonwealth and Federal grants, funds from the Commonwealth Legislature and Municipal funds. More detailed information about the Municipality's capital assets and future projects is presented in Note G to the financial statements.

Long-term debt

At year-end, the Municipality has \$ 15,760,000 in general and special bonds and notes outstanding, a decrease of 2% with respect to the prior year. This decrease was due to the repayment of principal amounts on outstanding obligations during the current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

TABLE 5

<i>Outstanding Long-term Debt As of June 30,</i>		
	Governmental Activities	
	2009	2008
General and special obligation bonds and notes	\$ 15,760,000	\$ 16,067,555
Compensated absences	1,370,107	1,329,275
Claims and judgments	-	40,000
Payable to CRIM – prior years doubtful accounts	4,586	4,785
Note payable-Puerto Rico Treasury Department	-	725,829
Christmas bonus payable	235,134	224,532
Payable to CRIM - LIMS	80,218	109,154
Estimated landfill closing costs	1,175,004	1,137,702
Note payable to FEMA	-	91,132
Property Taxes – current year	360,297	61,338
Payable to PREPA	166,298	130,803
Total	\$ 19,151,644	\$ 19,922,105

The Municipality reported a decrease in the other long-term debts of \$462,906. This increase was primarily due to a new debt to the P.R. Electric Power Authority (PREPA) and a negative CRIM property tax liquidation for the amounts of \$100,896 and \$298,959, respectively, as of June 30, 2009. More detailed information about the Municipality's long-term liabilities is presented in Note I to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing 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 16.8% which reasonably compares with the Commonwealth rate of 15.2%.

For the year 2009-2010 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2009-2010 are \$9,768,358 representing a decrease of approximately 11% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. If these estimates are achieved, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2009-2010 fiscal year. In addition to the general fund estimated budget, the Municipality plans to submit Federal and Commonwealth funds proposals for welfare and community development as well as permanent capital improvements and public works.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

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 Director of Finance at PO Box 97, Hormigueros, Puerto Rico 00660.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 2,439,307
Receivables, net:	
Municipal license taxes	15,377
Sales and use taxes (note M)	119,432
Lease (note D)	290,723
Other	11,929
Due from (note E):	
Commonwealth Government	955,055
Federal Government	255,213
Restricted assets:	
Cash and cash equivalents	3,286,788
Cash with fiscal agents	3,584,851
Investment held with fiscal agent (note C)	733,350
Deferred bond issuance costs	104,456
Capital assets (note G):	
Land and construction in progress	17,403,309
Other capital assets, net	25,803,512
Total capital assets, net	<u>43,206,821</u>
Total assets	<u><u>\$ 55,003,302</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,613,146
Interest payable	354,985
Due to:	
Commonwealth Government	28,064
Deferred revenues:	
Municipal license taxes:	955,160
Federal grants	17,704
Long-term liabilities (note I):	
Due within one year	1,363,729
Due in more than one year	17,787,915
Total liabilities	<u><u>22,120,703</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	31,309,738
Restricted for:	
Capital projects	2,725,031
Debt service	1,938,820
Other specified purposes	179,315
Unrestricted (deficit)	(3,270,305)
Total net assets	<u><u>\$ 32,882,599</u></u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2009

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Assets
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 6,913,065	\$ 687,392	\$ 422,574	\$ 128,718	\$ (5,674,381)
Public works and sanitation	3,257,302	50,308	45,396	2,089,531	(1,072,067)
Public safety	815,690	-	152,390	-	(663,300)
Culture and recreation	1,611,361	14,385	100,000	-	(1,496,976)
Health	385,630	-	-	-	(385,630)
Housing, welfare and community development	2,031,181	23,070	1,031,109	134,849	(842,153)
Education	31,606	-	-	-	(31,606)
Interest on long-term debt	820,918	-	-	-	(820,918)
Total	<u>\$ 15,866,753</u>	<u>\$ 775,155</u>	<u>\$ 1,751,469</u>	<u>\$ 2,353,098</u>	<u>(10,987,031)</u>

General revenues:

Taxes:	
Property taxes	3,552,363
Municipal license taxes	1,424,373
Sales and use taxes	2,017,806
Grants and contributions not restricted to specific programs	3,706,351
Interest	239,038
Other	212,661
Total general revenues	<u>11,152,592</u>
Change in net assets	165,561
Net assets-beginning	<u>32,717,038</u>
Net assets-ending	<u>\$ 32,882,599</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	Major Funds							Total Governmental Funds
	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Lavadero Sanitary Sewer System	\$ 3,000,000 Bond Issuance	Other Governmental Funds	
Assets								
Cash and cash equivalents	\$ 2,439,307	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,439,307
Receivables, net:								
Municipal license taxes	15,377	-	-	-	-	-	-	15,377
Sales and use taxes	119,432	-	-	-	-	-	-	119,432
Lease	290,723	-	-	-	-	-	-	290,723
Other	1,925	-	-	-	-	-	10,004	11,929
Due from:								
Commonwealth Government	432,926	-	5,468	212,267	25,611	1,500	277,283	955,055
Federal Government	-	188,065	-	-	-	-	67,148	255,213
Other funds (note F)	180,493	-	-	-	-	-	484	180,977
Restricted assets:								
Cash and cash equivalents	-	1,019	1,380,281	-	204,550	-	1,700,938	3,286,788
Cash with fiscal agents	-	-	-	2,081,140	-	-	1,503,711	3,584,851
Investment held with fiscal agent	-	-	-	-	-	733,350	-	733,350
Total assets	\$ 3,480,183	\$ 189,084	\$ 1,385,749	\$ 2,293,407	\$ 230,161	\$ 734,850	\$ 3,559,568	\$ 11,873,002
Liabilities and fund balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 549,852	\$ 183,208	\$ 224,636	\$ -	\$ 391,870	\$ -	\$ 263,580	\$ 1,613,146
Matured bonds and interest payable	-	-	-	820,378	-	-	-	820,378
Due to:								
Commonwealth Government	28,064	-	-	-	-	-	-	28,064
Other funds	484	4,859	5,468	-	-	-	170,166	180,977
Deferred revenues (notes D, H, L, and M):								
Municipal license taxes	955,160	-	-	-	-	-	-	955,160
Lease	290,723	-	-	-	-	-	-	290,723
Intergovernmental-Commonwealth Government	335,057	-	5,468	36,191	25,611	-	82,443	484,770
Federal grants	-	170,700	-	-	-	-	17,704	188,404
Total liabilities	2,159,340	358,767	235,572	856,569	417,481	-	533,893	4,561,622
Fund balances (deficits):								
Reserved for:								
Encumbrances	428,159	-	-	-	-	-	-	428,159
Debt service	-	-	-	1,436,838	-	-	-	1,436,838
Capital projects	48,810	-	1,150,177	-	-	734,850	2,845,702	4,779,539
Other specified purposes	18,367	-	-	-	-	-	179,973	198,340
Unreserved								
Designated for subsequent years expenditures	313,166	-	-	-	-	-	-	313,166
Undesignated	512,341	(169,683)	-	-	(187,320)	-	-	155,338
Total fund balances (deficits)	1,320,843	(169,683)	1,150,177	1,436,838	(187,320)	734,850	3,025,675	7,311,380
Total liabilities and fund balances (deficits)	\$ 3,480,183	\$ 189,084	\$ 1,385,749	\$ 2,293,407	\$ 230,161	\$ 734,850	\$ 3,559,568	\$ 11,873,002

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009**

Total governmental fund balances:		\$ 7,311,380
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		43,206,821
Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:		
Deferred charges - bond issuance costs		104,456
Other assets are not available to pay current-period expenditures and therefore are deferred in the funds:		
Receivable:		
Lease agreement	\$ 290,723	
Due from Commonwealth Government:		
P.R. Infrastructure Financing Authority	37,443	
P.R. Infrastructure Financing Authority - PINI Funds	25,611	
P.R. Department of Treasury - Christmas bonus reimbursement	115,899	
P.R. Department of Labor - Law No. 52	766	
Commonwealth Legislature Resolutions	5,468	
P.R. Department of Education	10,600	
P.R. Department of Labor - Law No. 82	5,303	
P.R. Department of Treasury -sales and use taxes (General Fund)	36,191	
P.R. Department of Treasury -sales and use taxes (Debt Service Fund)	36,191	
P.R. Electric Power Authority (PREPA)	166,298	
P.R. Public Housing Administration (PRPHA)	45,000	
Due from Federal Government:		
CDBG	170,700	946,193
Interest liabilities are not due and payable in the current period and, therefore, are not reported in funds		(102,607)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	15,192,000	
Note payable to CRIM-LIMS	80,218	
Note payable to CRIM-financing of delinquent accounts	4,586	
Prior year property tax	360,297	
Compensated absences	1,370,107	
Christmas bonus payable	235,134	
P.R. Electric Power Authority (PREPA)	166,298	
Estimated landfill closing costs	1,175,004	(18,583,644)
Net assets of governmental activities:		\$ 32,882,599

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2009

	Major Funds							Total Governmental Funds
	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Lavadero Sanitary Sewer System	\$ 3,000,000 Bond Issuance	Other Governmental Funds	
Revenues:								
Taxes:								
Property taxes (note K)	\$ 2,946,603	\$ -	\$ -	\$ 605,760	\$ -	\$ -	\$ -	\$ 3,552,363
Municipal license taxes (note L)	1,424,373	-	-	-	-	-	-	1,424,373
Sales and use taxes (note M)	1,559,391	-	-	434,235	-	-	-	1,993,626
Intergovernmental:								
Commonwealth government (note N)	3,980,886	-	4,410	-	-	-	2,100,223	6,085,519
Federal government	-	668,210	-	-	-	-	1,210,742	1,878,952
Fees, fines and charges for services	757,844	-	-	-	-	-	17,311	775,155
Interest	216,601	-	-	18,644	-	3,793	-	239,038
Other	108,388	-	-	-	-	-	27,936	136,324
Total revenues	10,994,086	668,210	4,410	1,058,639	-	3,793	3,356,212	16,085,350
Expenditures								
Current:								
General government	6,133,967	123,568	-	-	-	-	122,460	6,379,995
Public works and sanitation	2,398,331	-	-	-	-	-	150,919	2,549,250
Public safety	664,431	-	-	-	-	-	10,862	675,293
Culture and recreation	976,435	-	-	-	-	-	100,000	1,076,435
Health	373,387	-	-	-	-	-	-	373,387
Housing, welfare and community development	718,300	158,619	57	-	-	-	1,024,584	1,901,560
Education	15,214	-	-	-	-	-	-	15,214
Capital outlays	1,007,233	271,441	1,052,813	-	382,738	-	1,671,312	4,385,537
Debt service:								
Principal	-	-	-	789,990	-	-	-	789,990
Interest	-	-	-	767,229	-	-	-	767,229
Bond issuance costs	-	-	-	-	-	-	4,008	4,008
Total expenditures	12,287,298	553,628	1,052,870	1,557,219	382,738	-	3,084,145	18,917,898
Excess (deficiency) of revenues over expenditures	(1,293,212)	114,582	(1,048,460)	(498,580)	(382,738)	3,793	272,067	(2,832,548)
Other financing sources (uses):								
Lease principal payments (note D)	82,498	-	-	-	-	-	-	82,498
Payment of long term debt to P. R. Electric Power Authority	(65,401)	-	-	-	-	-	-	(65,401)
Payment of long term debt to P. R. Department of Treasury	(765,834)	-	-	-	-	-	-	(765,834)
Proceeds from general obligation bonds	-	-	-	-	-	-	385,000	385,000
Transfers in	781,034	-	100,000	474,800	-	-	-	1,355,834
Transfers out	(474,800)	-	(100,000)	(11,856)	-	(2,293)	(766,885)	(1,355,834)
Total other financing sources (uses)	(442,503)	-	-	462,944	-	(2,293)	(381,885)	(363,737)
Net change in fund balance	(1,735,715)	114,582	(1,048,460)	(35,636)	(382,738)	1,500	(109,818)	(3,196,285)
Fund balance (deficits) at beginning of year	3,056,558	(284,265)	2,198,637	1,472,474	195,418	733,350	3,135,493	10,507,665
Fund balance (deficits) at end of year	1,320,843	(169,683)	\$ 1,150,177	\$ 1,436,838	\$ (187,320)	\$ 734,850	\$ 3,025,675	\$ 7,311,380

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2009**

Net change in fund balances-total governmental funds:	\$	(3,196,285)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds reports capital assets 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:		
Expenditures for capital assets	\$ 4,385,537	
Less: current year depreciation	<u>(1,803,662)</u>	2,581,875
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset.		
		(11,073)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Intergovernmental - Commonwealth Government:		
P.R. Department of Treasury - Christmas bonus reimbursement (current)	\$ 115,899	
P.R. Department of Labor - Law No. 52	766	
P.R. Department of Labor - Law No. 82	5,303	
P.R. Department of Education	10,600	
P.R. Public Housing Administration (PRPHA)	45,000	
P.R. Infrastructure Financing Authority	37,443	
P.R. Infrastructure Financing Authority - PINI Funds	25,611	
P.R. Department of Treasury -sales and use taxes (General Fund)	36,191	
P.R. Department of Treasury -sales and use taxes (Debt Service Fund)	36,191	
Commonwealth Legislature Resolutions	5,468	
P.R. Electric Power Authority (PREPA)	100,896	
Intergovernmental - Federal Government:		
CDBG	170,700	
Donated capital assets	<u>43,875</u>	633,943
Revenues reported in funds which are not reported as revenues in the Statement of Activities		
P.R. Department of Treasury - Christmas bonus reimbursement (prior year)	(104,288)	
P.R. Department of Labor - Law No. 52	(15,624)	
P.R. Department of Labor - Law No. 82	(80,736)	
P.R. Infrastructure Financing Authority	(36,819)	
P.R. Department of Education	(10,600)	
P.R. Department of Treasury -sales and use taxes (General Fund)	(24,101)	
P.R. Department of Treasury -sales and use taxes (Debt Service Fund)	(24,101)	
Commonwealth Legislature Resolutions	(333)	
P.R. Electric Power Authority (PREPA)	(196,205)	
HSGP- Equipment Acquisition	(1,547)	
Federal Transit Administration (FTA)	(5,684)	
CDBG	(144,074)	
Capital lease principal payment	<u>(50,036)</u>	(694,148)
Proceeds from general obligation bonds are other financing sources in the governmental funds, but increase in long-term liabilities in the Statements of Net Assets:		
		(385,000)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments (net change)		83,000
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General Obligation Bonds and Notes	692,554	
Other long-term liabilities	<u>1,355,922</u>	2,048,476
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	4,007	
Amortization of deferred charges	<u>(7,949)</u>	(3,942)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Christmas Bonus	(235,134)	
P.R. Electric Power Authority (PREPA)	(100,896)	
Estimated Landfill Closing Costs	(37,302)	
Compensated Absences	(220,725)	
Prior Year Property Taxes	(298,959)	
Accrued interest (net change)	<u>1,731</u>	(891,285)
Change in net assets of governmental activities:	\$	<u>165,561</u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Hormigueros was founded in 1874. The Municipality is governed by the executive and the legislative branch elected for a four-year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of twelve (12) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of Hormigueros (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exists between the primary government and the potential component unit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. *Basis of presentation, measurement focus and basis of accounting*

The financial report of the Municipality consists of the Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

The basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures (for Commonwealth Legislature Resolutions, Debt Service and \$3,000,000 Bond Issuance Funds) or based on the Municipality's official criteria if the fund is particularly important to financial statement users (for Community Development Block Grant, Lavadero Sanitary Sewer System Funds and \$3,000,000 Bond Issuance Fund).

The Municipality reports the following major governmental funds:

General Fund: The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted in another fund.

Community Development Block Grant Program Fund (CDBG): CDBG fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Commonwealth Legislature Resolutions Fund: This fund accounts for revenue sources from grants provided by the Commonwealth Legislature for specific purposes which includes, among others, acquisition, development and improvements of capital assets.

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Lavadero Sanitary Sewer System Fund: This fund accounts for revenue sources from a grant provided by the USDA Rural Development for specific purposes, that is, the construction of a sanitary sewer system for the "Lavadero" community.

\$3,000,000 Bond Issuance Fund: This fund accounts for proceeds from a special obligation bond issuance for the acquisition of land and construction of sports facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Governmental funds, reported in the fund statements, are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. 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 this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports in the governmental funds statements deferred revenues which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (In the case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. *Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents*

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the general and other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Interfund receivables and payables*

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

6. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

7. *Capital assets*

Capital assets, which include property, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$1,000 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	20-50
Infrastructure	10-50
Vehicles, machinery and equipment	5-20

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Long-term obligations*

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

9. *Deferred bond issuance costs*

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

11. *Fund balances and Net Assets*

a. Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balances represent portions that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balances:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Debt Service:	Represent net assets available to finance future debt service payments.
Capital Projects:	Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.
Other specified purposes:	Represent amounts to be used for future expenditures of Federal and Commonwealth's grants to be used to finance activities other than construction or capital improvement commitments

Fund balance unreserved-designated represents amounts that Management has identified for future spending and not legally segregated.

b. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt:	Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
Restricted net assets:	Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

12. *Interfund transactions*

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. *Risk financing*

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Hormigueros consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

14. *Use of estimates*

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

15. *Future adoption of accounting pronouncements*

The GASB has issued the following statements, which the Municipality has not yet adopted:

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
51	Accounting and Financial Reporting for Intangible Assets	June 30, 2010
53	Accounting and Financial Reporting for Derivative Instruments	June 30, 2010
54	Fund Balance Reporting and Governmental Fund Type Definition	June 30, 2011

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

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

(Continues)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE B – CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year-end the Municipality's bank balance in commercial banks amounts to \$5,724,423.

Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$2,562,741.

NOTE C – INVESTMENT HELD WITH FISCAL AGENT

The investment held with fiscal agent consists of a non-participating investment contract (non-rated guaranteed investment contract, "GIC"). This represents the investment of the undisbursed proceeds of the \$3,000,000 special obligation bond under custody of GDB, the Municipality's fiscal agent, pursuant to the bond purchase agreement. The GIC, with an outstanding balance of \$733,350 as of June 30, 2009, earns interest at a variable rate (LIBOR minus .125%, .9818% as of June 30, 2009) and matures on July 15, 2009. The GIC outstanding balance is valued at cost.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults on the Municipality's investments are considered low at June 30, 2009.

NOTE D – RECEIVABLES - LEASE

The Municipality is a lessor of a property, which consist of a building facility, classified as direct financing lease. The lease term is for twenty years under a noncancelable lease agreement. The following shows the component of the net investment in direct financing lease as of June 30, 2009:

	Amount
Total minimum lease payments to be received	\$ 361,722
Less: Unearned income	(70,999)
Net investment in direct financing lease	\$ 290,723

At June 30, 2009, minimum lease payments for each of the five succeeding fiscal years are as follows:

Year	Amount
2010	\$ 76,152
2011	76,152
2012	76,152
2013	76,152
2014	57,114
	\$ 361,722

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE E - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. *Amounts due from governmental entities as of June 30, 2009 follows:*

	Commonwealth Government	Federal Government
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 166,298	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	115,899	-
P.R. Department of Education	39,800	-
P.R. Department of Treasury – sales and use taxes- Municipal Development fund	58,109	-
P.R. Department of Labor – Law No. 52 and 82	40,977	-
Others	11,843	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	188,065
<u>Major fund – Commonwealth Legislature</u>		
<u>Resolutions fund:</u>		
Commonwealth Legislative Resolutions	5,468	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	130,714	-
P.R. Department of Treasury – sales and use taxes- Municipal Redemption Fund	81,553	-
<u>Major fund – Lavadero Sanitary Sewer System fund:</u>		
P.R. Infrastructure Financing Authority (PRIFA) – “Brisas de Lavadero”	25,611	-
<u>Major fund – \$3,000,000 Bond issuance fund:</u>		
Government Development Bank - interest	1,500	-
<u>Other governmental funds:</u>		
P.R. Infrastructure Financing Authority (PRIFA)	37,443	-
P.R. Infrastructure Financing Authority (PRIFA) – PINI Funds	27,340	-
P.R. Public Housing Administration (PRPHA) – Lavadero Multipurpose Center	45,000	-
Solid Waste Authority-Landfill improvements	167,500	-
P.R. Department of Family – Child Care	-	21,496
P.R. Department of Health – HOPWA	-	17,134
Office of Public Safety Affairs- Homeland Security Grant Program	-	16,868
Others	-	11,650
	\$ 955,055	\$ 255,213

See note H for detail of amounts due from Governmental Entities recorded as deferred revenue.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE E - DUE FROM (TO) GOVERNMENTAL ENTITIES – Continued

2. Amounts due to governmental entities as of June 30, 2009 follows:

	Commonwealth Entities
P.R. Aqueduct and Sewer Authority (PRASA)	\$ 25,147
General Services Administration	2,917
	\$ 28,064

NOTE F - INTERFUND TRANSACTIONS

1. Due from/to other funds

Amounts due from/to other funds represent temporary advances to other funds by the general fund payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	<u>Major fund:</u> CDBG	\$ 4,859
	<u>Major fund:</u> Commonwealth Legislature Resolutions	5,468
	<u>Other governmental funds:</u> \$840,000 Bond Issuance	30,000
	Homeland Security Grant Program	17,330
	Infrastructure Financing Authority	37,443
	Child Care	23,539
	Solid Waste Authority	18,000
	P.R. Public Housing Administration	13,320
	HOPWA	18,780
	Others	11,754
Other governmental funds - Section 8	<u>Major fund</u> General Fund	484
Total:		\$ 180,977

2. Transfers in (out)

Transfers among individual funds were made for operational purposes. Transfers include (1) interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement loans in other governmental funds which are transferred to the general fund, and (2) principal and interest payments of general long-term debt transferred from the general fund to the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE G - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2009 is as follows:

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 7,577,389	\$ 125,106	\$ -	\$ 7,702,495
Construction in progress	7,065,033	3,221,130	585,349	9,700,814
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets not being depreciated:	14,642,422	3,346,236	585,349	17,403,309
Capital assets, being depreciated:				
Land improvements	1,046,506	-	-	1,046,506
Buildings and building improvements	22,026,686	651,119	-	22,677,805
Infrastructure	11,114,154	246,883	8,181	11,352,856
Vehicles, machinery and equipment	7,560,520	770,523	106,811	8,224,232
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	41,747,866	1,668,525	114,992	43,301,399
Less accumulated depreciation for:				
Land improvements	316,781	36,003	-	352,784
Buildings and building improvements	6,718,050	614,404	-	7,332,454
Infrastructure	4,336,942	582,124	7,022	4,912,044
Vehicles, machinery and equipment	4,426,371	571,131	96,897	4,900,605
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	15,798,144	1,803,662	103,919	17,497,887
Total capital assets being depreciated, net	<hr/>	<hr/>	<hr/>	<hr/>
	25,949,722	(135,137)	11,073	25,803,512
Governmental activities capital assets, net	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 40,592,144</u>	<u>\$ 3,211,099</u>	<u>\$ 596,422</u>	<u>\$ 43,206,821</u>

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

Governmental activities:

General government	\$ 226,328
Public works and sanitation	743,754
Public safety	140,397
Culture and recreation	534,927
Health	12,243
Welfare and community development	129,620
Education	16,393
	<hr/>
Total depreciation expense, governmental activities	<u>\$ 1,803,662</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - DEFERRED REVENUES – Commonwealth Government and Federal Grants

Deferred revenues - Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources received before allowable expenditures are incurred or resources not available as required by current standards. A detail of these balances follows:

	Commonwealth Government	Federal Grants
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 166,298	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	115,899	-
P.R. Department of Education	10,600	-
P.R. Department of Treasury – sales and use taxes - Municipal Development Fund	36,191	-
P.R. Department of Labor – Law No. 52 and 82	6,069	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	170,700
<u>Major fund – Commonwealth Legislature Resolutions fund:</u>		
Commonwealth Legislative Resolutions	5,468	-
<u>Major fund – Debt service fund:</u>		
P.R. Department of Treasury – sales and use taxes – Municipal Redemption Fund	36,191	-
<u>Major fund – Lavadero Sanitary Sewer System fund:</u>		
P.R. Infrastructure Financing Authority (PRIFA) – “Brisas de Lavadero”	25,611	-
<u>Other governmental funds:</u>		
P.R. Infrastructure Financing Authority (PRIFA)	37,443	-
P.R. Public Housing Administration (PRPHA) – Lavadero Multipurpose Center	45,000	-
P.R. Department of Education – Food Program	-	10,375
U.S. Department of Transportation – Federal Transit	-	7,329
	\$ 484,770	\$ 188,404

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2009:

	<u>Balance at July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 16,067,555	\$ 385,000	\$ 692,555	\$ 15,760,000	\$ 790,000
Note payable to CRIM-LIMS	109,154	-	28,936	80,218	30,684
Note payable to CRIM-financing of delinquent accounts	4,785	-	199	4,586	199
Note payable to FEMA	91,132	-	91,132	-	-
Note payable to Puerto Rico Treasury Department	725,829	-	725,829	-	-
Compensated absences	1,329,275	220,725	179,893	1,370,107	180,972
Christmas Bonus	224,532	235,134	224,532	235,134	235,134
Judgments and legal claims	40,000	-	40,000	-	-
Estimated Landfill Closing Costs	1,137,701	37,303	-	1,175,004	-
Payable to CRIM-property tax advances	61,338	298,959	-	360,297	61,338
Payable to PREPA	130,803	100,896	65,401	166,298	65,402
	<u>\$ 19,922,104</u>	<u>\$ 1,278,017</u>	<u>\$ 2,048,477</u>	<u>\$ 19,151,644</u>	<u>\$ 1,363,729</u>

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2009 amount to \$15,760,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of \$690,000 Revenue bonds are made through an "Interest Bearing Account" (IBA) maintained by GDB, which is financed with proceeds from lessee's rental payments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT – Continued

Principal and interest payments of certain long-term debt issued for operational purposes (special obligation note of \$748,000 and special obligation bonds of \$3,000,000 and \$203,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Principal and interest payments of special obligation notes of \$305,000, \$139,000, \$1,027,000 and \$385,000 are made through the "Municipal Redemption Fund". A detail of the general and special obligation bonds and notes as of June 30, 2009 follows:

	Outstanding Amount
1994 public improvement bonds of \$125,000 due in annual installments of \$3,000 to \$10,000 through January 1, 2019; bearing interest at 5%	\$ 73,000
1992 public improvement bonds of \$168,000 due in annual installments of \$2,000 to \$17,000 through January 1, 2017; bearing interest at 5%	96,000
1997 general obligation bonds of \$175,000 due in annual installments of \$5,000 to 15,000 through July 1, 2021; bearing interest at rates ranging from 4.865% to 6.56% (5.78% at June 30, 2009)	115,000
1996 general obligation bonds of \$390,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2020; bearing interest at rates ranging from 4.70% to 6.63% (6.20 % at June 30, 2009)	280,000
1999 general obligation bonds of \$410,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2024; bearing interest at rates ranging from 2.70% to 7.81% (4.10% at June 30, 2009)	335,000
2001 general obligation bonds of \$425,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2025; bearing interest at rates ranging from 2.70% to 6.13% (4.10% at June 30, 2009)	365,000
1999 general obligation bonds of \$736,000 due in annual installments of \$19,000 to \$52,000 through January 1, 2024; bearing interest at 4.75%	576,000
1998 general obligation bonds of \$983,000 due in annual installments of \$23,000 to \$65,000 through January 1, 2024; bearing interest at 4.5%	729,000
2002 general obligation bonds of \$1,000,000 due in annual installments of \$21,000 to \$65,000 through January 1, 2030; bearing interest at 4.50%	905,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT – Continued

	<u>Outstanding Amount</u>
2000 general obligation bonds of \$1,040,000 due in annual installments of \$27,000 to \$76,000 through January 1, 2025; bearing interest at 5.12%	\$ 858,000
1997 general obligation bonds of \$1,538,000 due in annual installments of \$41,000 to \$109,000 through January 1, 2022; bearing interest at 4.75%	1,089,000
1992 revenue bonds of \$690,000 due in annual installments of \$5,000 to \$25,000 through July 1, 2013; bearing interest at 9%	200,000
2004 general obligation bonds of \$530,000 due in annual installments of \$15,000 to \$40,000 through July 1, 2024; bearing interest at rates ranging from 3.28% to 5.00% (4.38% at June 30, 2009)	460,000
2004 general obligation bonds of \$1,355,000 due in annual installments of \$35,000 to \$85,000 through July 1, 2029; bearing interest at rates ranging from 3.50% to 5.00% (4.38% at June 30, 2009)	1,210,000
2005 special obligation notes of \$748,000 due in annual installments of \$92,000 to \$124,000 through July 1, 2012; bearing interest at rates ranging from 5.00% to 7.50% (5.40% at June 30, 2009)	460,000
2006 general obligation bonds of \$920,000 due in annual installments of \$20,000 to \$70,000 through July 1, 2030; bearing interest at rates ranging from 4.17% to 5.31% (4.38% at June 30, 2009)	860,000
2007 general obligation bonds of \$840,000 due in annual installments of \$10,000 to \$75,000 through July 1, 2031; bearing interest at rates ranging from 6.60% to 7.50% (5.40% at June 30, 2009)	815,000
2007 general obligation notes of \$525,000 due in annual installments of \$60,000 to \$90,000 through July 1, 2014; bearing interest at rates ranging from 3.93% to 7.50% (5.40% at June 30, 2009)	465,000
2008 general obligation notes of \$400,000 due in annual installments of \$45,000 to \$70,000 through July 1, 2014; bearing interest at rates ranging from 3.93% to 7.25% (5.40% at June 30, 2009)	355,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT – Continued

	Outstanding Amount
2008 general obligation bonds of \$569,000 due in annual installments of \$40,000 to \$77,000 through July 1, 2017; bearing interest at rates ranging from 3.93% to 7.50% (5.40% at June 30, 2009)	\$ 529,000
2008 special obligation notes of \$305,000 due in annual installments of \$45,000 to \$60,000 through July 1, 2014; bearing interest at rates ranging from 3.93% to 7.50% (5.40% at June 30, 2009)	305,000
2008 special obligation notes of \$139,000 due in annual installments of \$2,000 to \$11,000 through July 1, 2032; bearing interest at 7.25%	139,000
2008 special obligation notes of \$1,027,000 due in annual installments of \$16,000 to \$87,000 through July 1, 2032; bearing interest at rates ranging from 7.00% to 7.25% (5.40% at June 30, 2009)	1,027,000
2007 special obligation bond of \$3,000,000 due in annual installments of \$60,000 to \$205,000 through July 1, 2032; bearing interest at 5.83%	2,940,000
2007 special obligation bond of \$203,000 due in annual installments of \$14,000 to \$27,000 through July 1, 2017; bearing interest at rates ranging from 3.93% to 7.50% (5.40% at June 30, 2009)	189,000
2008 special obligation notes of \$385,000 due in annual installments of \$5,000 to \$30,000 through July 1, 2033; bearing interest at 7.50%	385,000
	\$ 15,760,000

The annual requirements to amortize general and special obligation bonds and notes as of June 30, 2009 follows:

June 30,	Principal	Interest
2010	\$ 790,000	\$ 842,321
2011	831,000	840,493
2012	888,000	794,840
2013	943,000	739,217
2014	838,000	690,358
2015-2019	3,675,000	3,438,673
2020-2024	3,525,000	1,737,917
2025-2029	2,533,000	918,927
2030-2034	1,737,000	233,833
Totals	\$ 15,760,000	\$ 10,236,579

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT – Continued

3. Other long-term liabilities

	Outstanding Amount
<p>Note payable to CRIM (LIMS) - On November 28, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$261,009 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$17,503, including interest of 5.95%, and is due on November 28, 2011. The amount will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center. Debt service requirements in future years are as follows:</p>	<p>\$ 80,218</p>

June 30,	Principal	Interest
2010	\$ 30,684	\$ 4,171
2011	32,536	2,309
2012	16,998	421
Totals	\$ 80,218	\$ 6,901

<p>Note payable to CRIM (Financing of delinquent accounts) - On March 19, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$158,431 to finance delinquent property tax accounts sold to private investors, under the provisions of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the five-year period the loan outstanding balance was restructured for a twenty-five year period. The amount is repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center. Debt service requirements in future years are as follows:</p>	<p>\$ 4,586</p>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT – Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 199	\$ 282
2011	199	270
2012	199	257
2013	199	245
2014	199	245
2015-2019	997	1,038
2020-2024	997	728
2025-2029	997	419
2030-2034	600	65
Totals	<u>\$ 4,586</u>	<u>\$ 3,549</u>

Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds	\$ 1,370,107
Christmas Bonus - represents the accrued portion corresponding to fiscal year 2008-2009 of the Christmas bonus to be paid in December 2009	\$ 235,134
Estimated closure and post-closure care costs of Municipal Landfill - The Municipality owns and operates a MSW landfill in Barrio Jaguitas, Hormigueros since about 1977. The Municipality has recognized an estimated liability for future closure and post-closure care costs. (See note J)	\$ 1,175,004
Payable to CRIM, property tax advances – represents amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes applicable to fiscal years 2007-2008 and 2008-2009. (See related note K)	\$ 360,297

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I – LONG-TERM DEBT – Continued

Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELI”) based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2006-2007 the Municipality’s annual energy charges amounted to \$914,253 but the CELI obligation determined by PREPA amounted to \$718,049. As communicated by PREPA the excess amount of \$196,204 was recorded as a payable to the Municipality and will be amortized over a three-year period against the corresponding receivable for the same amount. As of June 30, 2008 the outstanding amount of \$ 65,402 is recognized by the Municipality as a receivable and a liability to PREPA. For fiscal year 2007-2008 the Municipality’s annual energy charges amounted to \$1,065,676 but the CELI obligation amounted to \$964,780. The excess amount of \$100,896 was also recorded as a payable and a receivable for the same amount. No amortization period was established by PREPA. Debt service requirements in future years are as follows:

\$ 166,298

June 30	Principal
2010	\$ 65,402
2011-2015	100,896
Totals	\$ 166,298

NOTE J- LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

The Municipality operates a landfill since 1977. Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability should be recognized based on the future 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 a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs. The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$1,175,004 as of June 30, 2009, which is based on 54% usage of the landfill. It is estimated that an additional \$988,495 will be recognized as closure and post-closure care expenditures between the date of the balance sheet and the date the landfill is expected to be filled to capacity (December 2035).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE J - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS –
Continued**

The estimated total current costs of the landfill closure and post-closure care (\$2,163,499) is based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2009. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

NOTE K - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2009 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	<u>2.00%</u>	<u>2.00%</u>
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u><u>6.83%</u></u>	<u><u>8.83%</u></u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE K - PROPERTY TAXES – Continued

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A net payable of \$61,338 resulting from the preliminary settlement for fiscal year 2007-2008 and an additional payable of \$298,959 resulting from the preliminary settlement for fiscal year 2008-2009 are recorded as other long-term debt in the government-wide statement since they will not be paid with current available financial resources.

NOTE L - MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the fiscal year ended June 30, 2009 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$955,160 are recorded as deferred revenues.

NOTE M - SALES AND USE TAXES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE M - SALES AND USE TAXES - Continued

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax on November 1, 2006 with Ordinance No. 36 Series 2006-2007, effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amended Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the PRDT (the remaining .5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- .1% of the .5% 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

The Municipal Legislature approved an amendment to Municipal Ordinance No. 22 Series 2006-2007 to conform to dispositions of Act 80.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. A total \$119,432 sales and use tax receivable represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; \$58,109 and \$81,553 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund", respectively, collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$36,191 (related to Municipal Development Fund) and \$36,191 (related to Municipal Redemption Fund) are recorded as deferred revenue since is not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE N - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	<u>Amount</u>
Amount of municipal equalization fund sent by CRIM	\$ 2,333,020
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,153,788
P.R. Department of Labor – Law No. 52	202,359
P.R. Department of Labor – Law No. 82	112,595
Reimbursement from P.R. Department of Treasury - Christmas Bonus	179,124
	<u>\$ 3,980,886</u>

NOTE O - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system 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 the new program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE O - RETIREMENT PLAN - Continued

System 2000 is a hybrid defined contribution plan, also known as a cash balance 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 State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2009	<u>\$ 170,972</u>	<u>\$ 177,720</u>
2008	<u>\$ 176,198</u>	<u>\$ 146,069</u>
2007	<u>\$ 182,466</u>	<u>\$ 118,653</u>

NOTE P - POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note O, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. Costs related to these post employment benefits amounted to \$85,518 for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE Q - COMMITMENTS

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately \$46,680. Management believes that the summary of the future minimum rental commitments under noncancelable operating leases with terms exceeding one year is not significant.

2. Construction

The Municipality has commitments at June 30, 2009 of approximately \$4,711,935 for construction, improvements or renovation of certain municipal facilities.

NOTE R – FUND BALANCE DEFICITS

Certain special funds disclosed fund balance deficits as follows:

	Amount
Major Funds:	
CDBG	\$ 169,683
“Lavadero” Sanitary Sewer System	\$ 187,320
Other Governmental Funds:	
Infrastructure Financing Authority	\$ 57,356

The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE S – NET CHANGE IN FUND BALANCE – GENERAL FUND

The Statement of revenues, expenditures and changes in fund balance reported a net change in fund balance for the general fund in the amount of (\$1,735,715), which is composed of the following:

	Amount
Net change in fund balance, 01 Fund	\$ (1,658,141)
Net change in fund balance, other special funds (with self-imposed restrictions) included as part of the general fund:	(77,574)
	\$ (1,735,715)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE S – NET CHANGE IN FUND BALANCE – GENERAL FUND - Continued

The negative change in fund balance in 01 Fund resulted from the effect of a fund balance readjustment of \$1,340,351. This represents a readjustment of current year budget with prior year's fund balance resources approved by the Municipal Legislature. Resources to finance other special funds included as part of the general fund were provided in previous years but funds were expended in current year.

NOTE T - CONTINGENCIES

1. *Federal and Commonwealth grants*

Projects financed by Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 2,946,603	\$ 2,946,603	\$ 3,045,659	\$ 99,056
Municipal license taxes	1,490,692	1,490,692	1,449,765	(40,927)
Sales and use taxes	1,463,000	1,463,000	1,512,447	49,447
Intergovernmental	3,581,975	3,533,201	3,731,333	198,132
Fees, fines and charges for services	929,670	663,447	715,578	52,131
Interest	400,000	400,000	230,750	(169,250)
Other	120,000	121,845	109,292	(12,553)
Total revenues	<u>10,931,940</u>	<u>10,618,788</u>	<u>10,794,824</u>	<u>176,036</u>
Expenditures:				
Current:				
General government	5,346,323	5,942,399	5,975,023	(32,624)
Public works and sanitation	2,441,329	2,874,146	2,808,474	65,672
Public safety	714,611	665,823	664,866	957
Culture and recreation	873,127	984,344	968,829	15,515
Health	357,528	356,928	356,855	73
Welfare and community development	781,645	727,794	720,923	6,871
Education	21,800	15,403	15,214	189
Total expenditures	<u>10,536,363</u>	<u>11,566,837</u>	<u>11,510,184</u>	<u>56,652</u>
Excess (deficiency) of revenues over expenditures	395,577	(948,049)	(715,361)	232,688
Other financing sources (uses):				
Transfers in		-	1,051	1,051
Transfers out	395,577	(392,302)	(392,302)	-
Total other financing sources (uses)	<u>395,577</u>	<u>(392,302)</u>	<u>(391,251)</u>	<u>1,051</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	(1,340,351)	(1,106,612)	233,739
Readjustment from prior year fund balance (note S)	-	1,340,351	-	(1,340,351)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,106,612)</u>	<u>\$ (1,106,612)</u>

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

June 30, 2009

NOTE A - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

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

NOTE B - BUDGET READJUSTMENT

The accompanying budgetary comparison schedule - general fund presents a fund balance readjustment of \$1,340,351. This represents a readjustment of current year budget with prior year's budgetary surplus, approved by the Municipal Legislature.

NOTE C - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2009

NOTE C - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$	(1,106,612)
Budget to GAAP differences:		
Entity differences:		
Non budgeted funds recorded as revenues for financial reporting purposes:		398,306
Non budgeted funds recorded as expenditures for financial reporting:		(475,880)
Basis of accounting differences:		
Revenues recorded for financial reporting purposes but not in budgetary basis:		195,455
Revenues recorded in budgetary basis but not for financial reporting purposes:		(380,350)
Expenditures recorded in budgetary basis but not for financial reporting purposes:		86,258
Expenditures recorded for financial reporting purposes but not in budgetary basis:		(91,932)
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary reporting purposes:		317,170
Prior year encumbrances recorded as expenditures for financial reporting purposes:		(678,131)
Net change in fund balance (GAAP basis):	\$	<u>(1,735,715)</u>

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2009

Line Item No.	Description	14,871
	Balance Sheet	
111	Cash - unrestricted	\$ 53,011
113	Cash - other restricted	\$ 39,385
100	Total cash	\$ 92,396
121	Accounts receivable - PHA projects	\$ 9,686
122	Accounts receivable - HUD other projects	\$ 398
125	Accounts receivable - miscellaneous	\$ 1,047
126.2	Allowance for doubtful accounts - other	\$ (470)
128	Fraud recovery	\$ 948
128.1	Allowance for doubtful accounts - fraud	\$ (160)
120	Total receivables, net of allowance for doubtful accounts	\$ 11,449
144	Inter program - due from	\$ 484
150	Total Current Assets	\$ 104,329
164	Furniture, equipment and machinery - administration	\$ 19,872
166	Accumulated depreciation	\$ (19,316)
160	Total capital assets, net of accumulated depreciation	\$ 556
180	Total Non-current Assets	\$ 556
190	Total Assets	\$ 104,885
312	Accounts payable <= 90 days	\$ 6,148
322	Accrued compensated absences - current portion	\$ 2,891
331 - 030	Accounts payable - HUD PHA programs - Other	\$ -
332	Accounts Payable - PHA Projects	\$ -
333	Accounts payable - other government	\$ -
341	Tenant security deposits	\$ -
342	Deferred revenue	\$ -
345	Other current liabilities	\$ 1,296
347	Inter-program - due to	\$ -
348	Loan Liability - current	\$ -
310	Total Current Liabilities	\$ 10,335
353	Non-current liabilities - other	\$ 6,579
354	Accrued compensated absences - non current	\$ 7,233
350	Total Non-current Liabilities	\$ 13,812
300	Total Liabilities	\$ 24,147
508.1	Invested in Capital Assets, Net of Related Debt	\$ 556
511.1	Restricted Net Assets	\$ 33,010
512.1	Unrestricted Net Assets	\$ 47,172
513	Total Equity/Net Assets	\$ 80,738
600	Total Liabilities and Equity/Net Assets	\$ 104,885
	Income Statement	
70600-010	Housing assistance payments	\$ 476,371
70600-020	Ongoing administrative fees earned	\$ 71,420
70600-070	Admin fee calculation description	\$ -
70600	HUD PHA operating grants	\$ 547,791
71500	Other revenue	\$ 22,477
700	Total Revenue	\$ 570,268
91100	Administrative salaries	\$ 44,512
91200	Auditing fees	\$ 5,000
91500	Employee benefit contributions- administrative	\$ 12,222
91600	Office expenses	\$ 2,829
91800	Travel	\$ 483
91000	Total Operating - Administrative	\$ 65,046
96200	Other general expenses	\$ 782
96210	Compensated absences	\$ 1,420

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2009

Line Item No.	Description	14,871 Housing Choice Vouchers
96600	Bad debt - other	\$ 266
96000	Total Other General Expenses	\$ 266
96900	Total Operating Expenses	\$ 65,312
97000	Excess Revenue Over Operating Expenses	\$ 504,956
977300-020	Home-Ownership	\$ 2,724
97300-050	All Other	\$ 491,712
97300	Housing assistance payments	\$ 494,436
97350	HAP Portability-in	\$ 17,728
97400	Depreciation expense	\$ 164
97500	Fraud losses	\$ -
900	Total Expenses	\$ 577,640
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (7,372)
11030	Beginning equity	\$ 90,312
11040-010	Prior period adjustments and correction of errors - Editable	\$ -
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -
11170-020	Hard to House Fee Revenue	\$ -
11170-021	FSS Coordinator Grant	\$ -
11170-030	Audit Costs	\$ -
11170-040	Investment Income	\$ -
11170-045	Fraud Recovery Revenue	\$ -
11170-050	Other Revenue	\$ 22,378
11170-051	Comment For Other Revenue	This amount corresponds received from the initial
11170-060	Total Admin Fee Revenues	\$ 93,798
11170-080	Total Operating Expenses	\$ 65,312
11170-090	Depreciation	\$ 164
11170-095	Housing Assistance Portability In	\$ 17,728
11170-100	Other Expenses	\$ -
11170-101	Comment For Other Expense	
11170-003	Administrative Fee Equity - Ending Balance	\$ 49,930
11170	Administrative Fee Equity	\$ 49,930
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 50,976
11180-010	Housing Assistance Payments Revenues	\$ 476,371
11180-015	Fraud Recovery Revenue	\$ -
11180-020	Other Revenue	\$ 99
11180-021	Comment For Other Revenue	This amount corresponds
11180-025	Investment Income	\$ -
11180-030	Total HAP Revenues	\$ 476,470
11180-080	Housing Assistance Payments	\$ 494,436
11180-090	Other Expenses	\$ -
11180-091	Comment For Other Expense	
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 33,010
11180	Housing Assistance Payments Equity	\$ 33,010
11190-210	Total ACC HCV Units	1,236
11190-220	Unfunded Units	-
11190-230	Other Adjustments	-

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTE TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE

June 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note C)	Federal Expenditures (note A)
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	CCC-029	\$ 18,054
Water and Waste Disposal System for Rural Communities	10.760	N/A	<u>236,963</u>
Subtotal U.S. Department of Agriculture			255,017
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - States's Program	14.228	FD - 30 AF - 30 AB - 30 CD - 30	\$ 553,628
Shelter Plus Care	14.238	N/A	38,717
Passed through the P.R. Department of Health: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	2008-DS 0616	35,471
Passed through the P.R. Department of Housing - (Puerto Rico Public Housing Agency "PRPHA"): Public and Indian Housing	14.850	N/AV	151,409
Section 8 Housing Choice Vouchers Program	14.871	N/A	<u>547,791</u>
Subtotal U.S. Department of Housing and Urban Development			1,327,016
<u>U.S. Department of Transportation</u>			
Federal Transit Formula Grants	20.507	N/A	126,700
<u>U.S. Department of Health and Human Services</u>			
Passed through the P.R. Office of Elderly Affairs: National Family Caregiver Support, Title III, Part E	93.052	N/A	36,258
Nutrition Services Incentive Program	93.053	N/A	21,144
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	2005-2006-030 2006-2007-040	<u>93,195</u>
Subtotal U.S. Department of Health and Human Services:			150,597
<u>U.S. Department of Homeland Security</u>			
Passed through the Puerto Rico Governor Office - (Office of Public Safety Affairs): Homeland Security Grant Program (SHSP)	97.067	2005-GE-T5-4009	134,686
Total Expenditures of Federal Awards			<u>\$ 1,994,016</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C – PASS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Community Development Block Grant Fund	Lavadero Sanitary Sewer System Fund	Other Governmental Funds
10.558	\$ -	\$ -	\$ 18,054
10.760	-	236,963	-
14.228	553,628	-	-
14.238	-	-	38,717
14.241	-	-	35,471
14.850	-	-	151,409
14.871	-	-	547,791
20.507	-	-	126,700
93.052	-	-	36,258
93.053	-	-	21,144
93.575	-	-	93,195
97.067	-	-	134,686
Total federal awards expenditures	553,628	236,963	1,203,425
Total nonfederal awards expenditures	-	145,775	1,880,720
Total expenditures, fund statements	<u>\$ 553,628</u>	<u>\$ 382,738</u>	<u>\$ 3,084,145</u>

VALDES, GARCIA, MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Hormigueros (the Municipality) as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated December 31, 2009. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, 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 auditing procedures disclosed no instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards.

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor and Members of the Municipal Legislature, the Commonwealth of Puerto Rico, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Juan, Puerto Rico
December 31, 2009

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VALDES, GARCIA, MARIN & MARTINEZ, LLP

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

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

Compliance

We have audited the compliance of Municipality of Hormigueros (the Municipality) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements and other matters applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

In our opinion, the Municipality of Hormigueros complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008 III-1.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

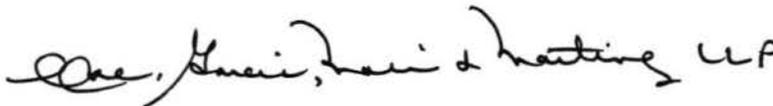
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The Municipality's response to the finding 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 Municipality's management, the Honorable Mayor and Members of the Municipal Legislature, the Commonwealth of Puerto Rico, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 31, 2009



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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditors' Results

Year ended June 30, 2009

I. Summary of audit results:

Part I - Financial Statements

1. Type of audit report: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Significant deficiencies: Yes No
3. Significant weaknesses reported as material weaknesses: Yes None reported
4. Material noncompliance disclosed: Yes No

Part II - Federal Awards

1. Significant deficiencies: Yes No
2. Significant weaknesses reported as material weaknesses: Yes None reported
3. Type of report on compliance on major programs: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
4. Audit findings required to be reported under Section 510(a) of Circular A-133: Yes No

5. Major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block State's Program
14.871	Section 8 Housing Choice Vouchers
10.760	Water and Waste Disposal System Rural Communities

6. Dollar threshold used to distinguish Type A and Type B programs: \$300,000
7. Low-risk auditee: Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS

Section II - Financial Statements Findings

Finding No matters reported.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Section III – Major Federal Award Program Findings and Questioned Costs

Reference
Number

2009 III-1

Agency U.S. Department of Housing and Urban Development

Program Section 8 Housing Choice Vouchers

CFDA
Number 14.871

Regulation/
Requirement Special test and provisions-Internal Control

Type Non-compliance

Condition In testing the Housing Quality Standards Enforcement procedures we noted that inspections were not performed.

Criteria 24 CFR Subpart I 982.404 (a) (2) (3) requires the following:

- (a) Owner obligation. (1) The owner must maintain the unit in accordance with HQS.
(2) If the owner fails to maintain the dwelling unit in accordance with HQS the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension or reduction of housing assistance payments and termination of HAP contract.
(3) The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect with no more than 30 calendar days (or any PHA-approved extension).
- (b) Family obligation. (1) The family is responsible for a breach of the HQS that is caused by any of the following:
(2) If an HQS breach caused by the family is life threatening, the family must correct the defect withing no more than 24 hours. For other family-caused defects, the family must correct the defect within no more than 30 calendar days (or any PHA-approved extension).
(3) If the family has caused a breach of the HQS, the PHA must take prompt and vigorous action to enforce the family obligations. The PHA may terminate assistance for the family with Sec. 982.552.

Cause The Municipality's officers in charge of the program did not perform effective monitoring review procedures for compliance regarding HQS enforcement inspection processes.

Effect The Municipality may be paying HAP payments for housing units that do not meet program requirements and that could affect the quality of life of participants. Also, it has an effect in the reporting of performance on the SEMAP report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Recommendations The Municipality should emphasize and perform timely inspections to ascertain that prompt corrective actions surrounding the owner are taken and that tenant meets HQS requirements. If the owner and tenant do not comply with federal requirements, the Municipality has the obligation to take adequate action with the HAP contract in accordance with federal regulations.

Management Comments As indicated by the Finance Director, management will take the necessary steps to design procedures to perform the HQS Inspections on a timely basis. They will also train the Program's personnel that perform duties on those federal regulations related to HQS inspection requirements

Questioned Costs None

CORRECTIVE ACTION PLAN

Contact Persons: Mrs. Marinelda Acosta – Director of Finance
Mr. Juan Serrano – Director of Internal Audit
Phone Number (787) 849-2515
(787) 849-4071

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HORMIGUEROS
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2008 III-1

Condition:

The Municipality did not follow procedures to minimize the time elapsing between the transfer of funds from the P.R. Department of Housing (the pass-through entity) and their disbursements to the suppliers.

Audit Finding Status

Action was taken. The situation was corrected.