

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

**MUNICIPIO DE LAJAS**  
**AUDITORÍA 2008-2009**  
30 DE JUNIO DE 2009



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS**

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY  
INFORMATION AND INDEPENDENT  
AUDITOR'S REPORT**

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



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**Mr. Leovigildo Cotte-Torres**  
Mayor

**Mr. Miguel A. Sepulveda-Mattei**  
Finance Director

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS

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***FINANCIAL SECTION***

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of Lajas, Puerto Rico

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

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

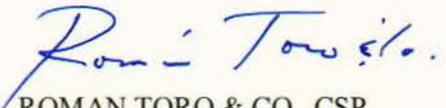
In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Lajas, Puerto Rico, as of June 30, 2009, and the respective changes in financial position, 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 22, 2009, on our consideration of the Municipality of Lajas, Puerto Rico'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.

**INDEPENDENT AUDITOR'S REPORT**

**(CONTINUED)**

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 50 through 52, 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.

  
ROMAN TORO & CO., CSP  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
December 22, 2009

Stamp #2474123 was affixed to  
the original of this report

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

Here we are presenting an analysis of the financial performance of the Municipality of Lajas to provide readers with an overview of the Municipality's financial activities for the fiscal year ended June 30, 2009. For a better understanding, read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Highlights for Government-wide Financial Statements**

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2009 by \$11,887,409 (net assets).
- Revenues decreased by 6% while expenses decreased 4% when compared with year 2008.
- Net change in net assets amounted to \$930,444, a decrease of approximately 27% with respect to prior year net change.

**Highlights for Fund Financial Statements**

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

- At the June 30, 2009, a negative net change (decrease) in the fund balances of the Municipality's governmental funds for the amount of \$868,359 resulted in a reported combined ending fund balances of \$7,633,541. This fund balance includes a net unreserved deficit for the amount of \$1,154,042.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$172,226 and an unreserved fund deficit of \$933,577. In the prior year there was an unreserved fund deficit of \$656,821.

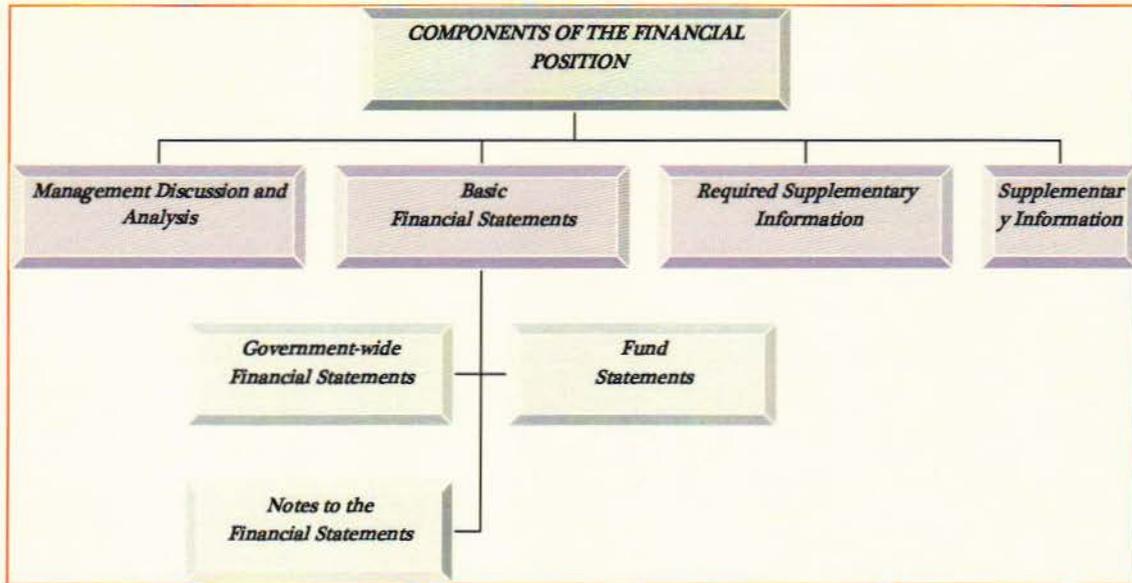
**General Financial Highlights**

- The investment in capital assets as of June 30, 2009 was \$17,757,449 (net of depreciation).
- Long term debt increased to \$14,646,068, approximately a 2% increase with respect to prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$92,712.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Municipality's financial report comprises four components: (1) management discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



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

**Basic Financial Statements**

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the statement of net assets – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's 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 LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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, health, welfare and community development; and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- **Fund Financial Statements**

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

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

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

- **Notes to the financial statements**

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 supplementary information also includes 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 LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

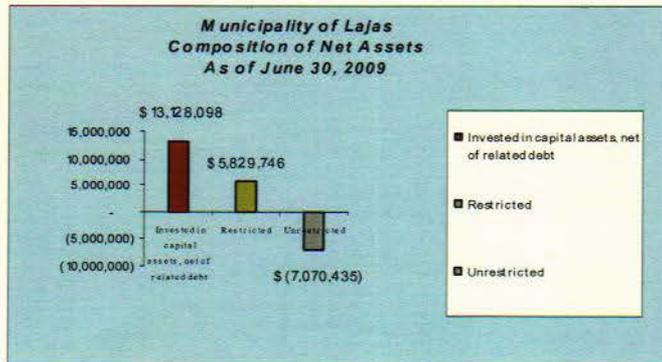
**Net Assets**

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

**TABLE 1**

<b>Summary Statement of Net Assets As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2008 (as restated)</b>
<b>Assets</b>		
Current and other assets	\$ 10,977,451	\$ 11,847,232
Capital assets	17,757,449	15,884,485
<b>Total assets</b>	<b>\$ 28,734,900</b>	<b>\$ 27,731,717</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 2,201,423	\$ 2,418,481
Long term liabilities	14,646,068	14,356,271
<b>Total liabilities</b>	<b>16,847,491</b>	<b>16,774,752</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	13,128,098	12,303,453
Restricted	5,829,746	5,248,916
Unrestricted (deficit)	(7,070,435)	(6,595,404)
<b>Total net assets</b>	<b>\$ 11,887,409</b>	<b>\$ 10,956,965</b>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2009, assets exceeded its liabilities by \$11,887,409 representing an increase of 8% with respect to year 2008 basically due to the increase in capital assets during the year. From this increase in capital assets, 19% represents assets received in donation.



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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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. As of June 30 2009, the Municipality presented an unrestricted net assets deficit. This deficit primarily arise 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, are reported as part of the unrestricted net assets section.

**Changes in net assets**

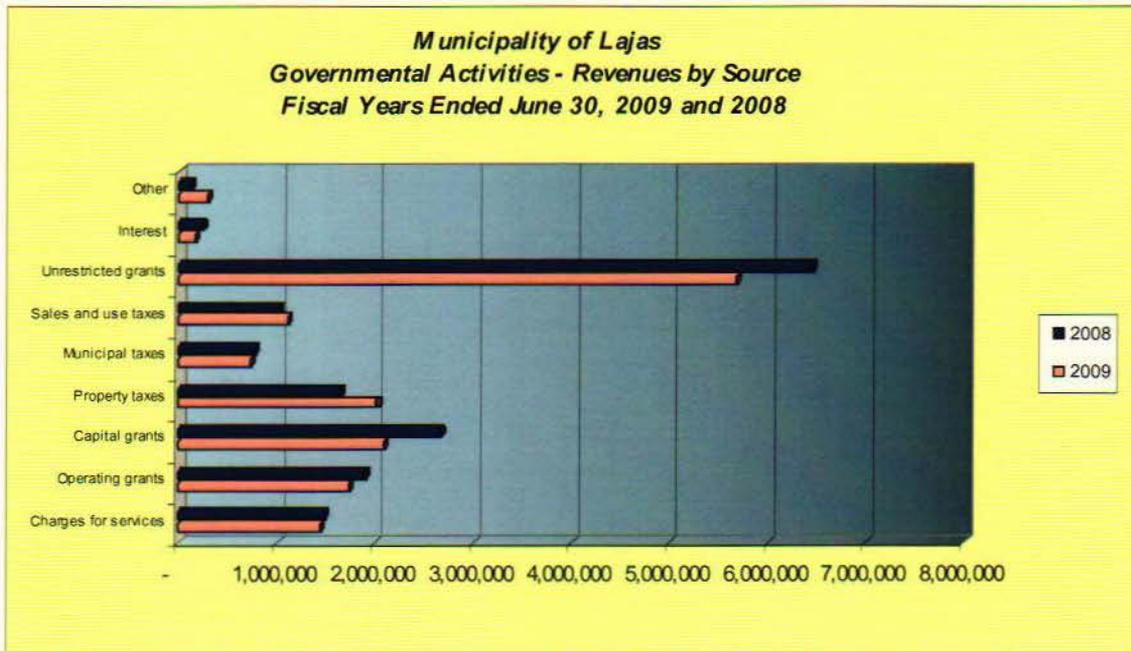
The following table summarizes the changes in net assets for the fiscal years ended 2009 and 2008:

**TABLE 2**

<b>Summary of Changes in Net Assets As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2008 (as restated)</b>
<b>Program revenues:</b>		
Fees, fines and charges for services	\$ 1,445,470	\$ 1,477,432
Operating grants and contributions	1,730,429	1,892,958
Capital grants and contributions	2,096,384	2,667,227
<b>General revenues:</b>		
Property taxes	2,020,141	1,641,787
Municipal license taxes	728,807	762,440
Sales and use taxes	1,104,267	1,018,571
Grants and contributions not restricted to specific programs	5,669,718	6,443,427
Interest	163,899	234,006
Other	287,035	112,915
<b>Total revenues</b>	<b>15,246,150</b>	<b>16,250,763</b>
<b>Expenses:</b>		
General government	4,635,973	4,979,761
Public works and sanitation	5,560,367	5,759,278
Public safety	757,122	832,529
Culture and recreation	895,322	1,182,992
Health	384,432	360,380
Welfare and community development	1,626,547	1,373,333
Interest on long term debt	455,943	482,139
<b>Total expenses</b>	<b>14,315,706</b>	<b>14,970,412</b>
<b>Change in net assets</b>	<b>930,444</b>	<b>1,280,351</b>
<b>Net assets-beginning of year</b>	<b>10,956,965</b>	<b>9,676,614</b>
<b>Net assets-end of year</b>	<b>\$ 11,887,409</b>	<b>\$ 10,956,965</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

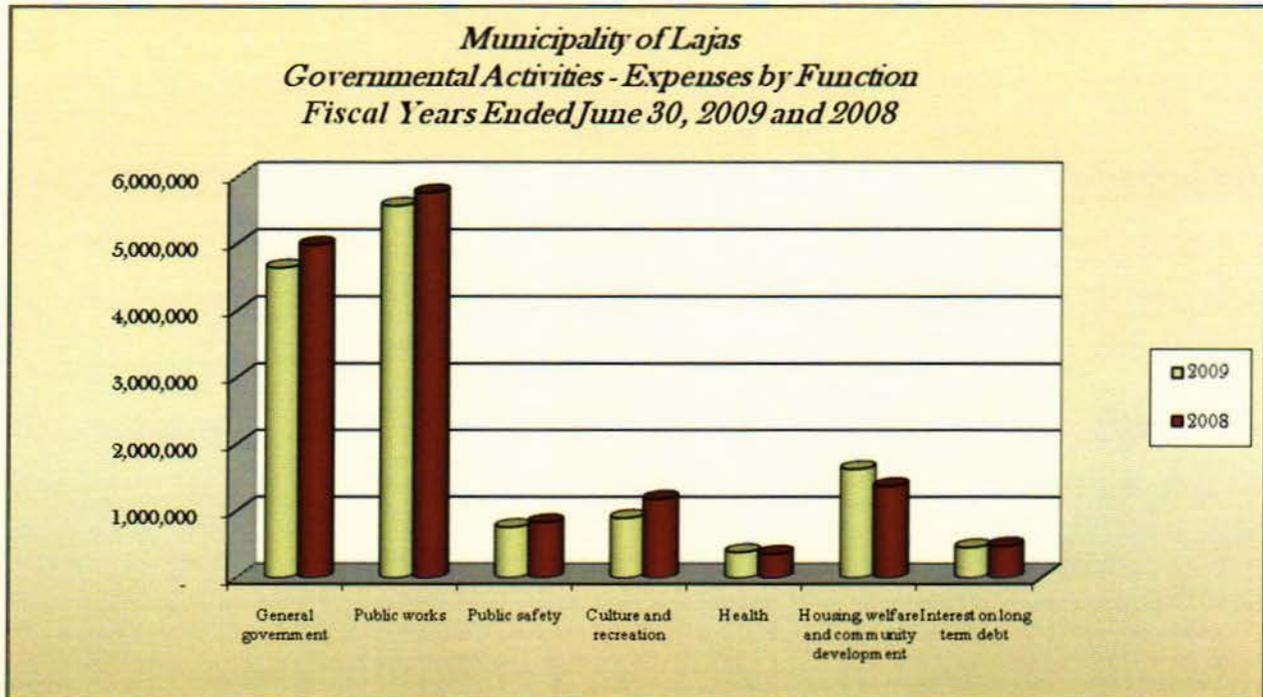
**FIGURE 1**



Approximately 37% of Municipality's revenues came from unrestricted grants, 25% from operating and capital grants, 13% from property taxes and 9% from fees, fines and charges from services. Revenues decreased by 6% in comparison with year 2008. The most significant change is a 16% decrease in operating and capital grants, due mainly to non recurrent capital improvement funds assigned by the Commonwealth Government and the Federal Government on year 2008, some of which were used during current year. There was also a 12% decrease in unrestricted grants and contributions revenues, a 23% increase in property tax revenues, and a 154% increase in other revenues due mainly because of property received in donation in current year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**FIGURE 2**



The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 39%, general government with 32% and welfare and community development with 11%. Program revenues of the Municipality covered 37% of total expenses.

Total expenses decreased 4% in comparison with previous year. This includes a 7% decrease in general government, due to the retirement of a significant amount of employees in current year. There were also decreases in public safety, and culture and recreation (9% and 24% respectively) due to the same reasons. These decreases were offset by a significant increase of 18% in welfare and community development due to the use in current year of grants received in prior year.

As noted previously the slight decrease in expenses combined with the decrease in revenues caused the net change in net assets to decrease approximately 27% compared with net change in net assets reported in 2008 statement of activities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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):

**TABLE 3**

<b>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,</b>				
<b>Functions/Programs</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2009</b>	<b>2008 (as restated)</b>	<b>2009</b>	<b>2008 (as restated)</b>
General government	\$ 4,635,973	\$ 4,979,761	\$ (2,931,484)	\$ (2,898,364)
Public works and sanitation	5,560,367	5,759,278	(3,367,747)	(2,851,845)
Public safety	757,122	832,529	(663,755)	(702,859)
Culture and recreation	895,322	1,182,992	(835,912)	(1,096,994)
Welfare and community development	1,626,547	1,373,333	(404,150)	(540,214)
Health	-	-	(384,432)	(360,380)
Interest on long term debt	840,375	842,519	(455,943)	(482,139)
	<u>\$ 14,315,706</u>	<u>\$ 14,970,412</u>	<u>\$ (9,043,423)</u>	<u>\$ (8,932,795)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$1,445,470) and other governments and organizations that subsidized certain programs with grants and contributions (\$3,826,813). The \$(9,043,423) net cost of services was fully covered by other general revenues including property taxes, municipal license taxes, sales and use taxes, and grants and contributions not restricted to specific programs.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

**Governmental funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2009, the governmental funds reported combined ending fund balances of \$7,633,541, a net decrease of \$868,359 in comparison with the prior year. This decrease was caused primarily by decreases in the General Fund of \$172,226 and in the Commonwealth Legislative Resolution fund of \$276,097, the use of new funds from the \$2,215,000 Loan Issuance Fund by \$162,933, a decrease of \$197,733 in the Community Development Block Grant Program fund, and the use of Other Governmental Funds by \$483,589. These decreases were partially offset by increases of \$29,306 and \$394,913 from the Debt Service fund and the Permanent Capital Improvements fund respectively. Of total combined fund balances, \$1,154,042 constitutes unreserved fund balance deficit. The remainder of fund balance is reserved to indicate that is not available for new spending.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

The general fund is the operating fund of the Municipality. There was an unreserved fund deficit in the general fund for the amount of \$933,577. For the year ended June 30, 2009, the fund balance of the general fund decreased by \$172,226. Within this net change there was an increase of \$30,256 which pertains to other special funds (with self imposed restrictions) included as part of the general fund (resources to finance these special funds were provided in current and previous years). The principal components of this decrease in the general fund are an increase in public works and sanitation expenditures, offset partially by an increase in property tax revenues.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2008-2009 presented an increase of 4% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$86,539 due to additional collections of property taxes revenues. Budget expenditures were increased by \$80,539. Actual revenues exceeded revised budgeted revenues by \$158 (net). The most significant variances were a positive \$307,598 in property taxes revenues, and a negative \$446,046 in fees, fines and charges for services revenues. The Municipality also reported a net negative variance of \$100,440 between revised budgeted appropriations and actual expenditures due to increased expenditures in the public works and sanitation category. Actual revenues were exceeded by actual expenditures by \$92,712.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality has invested \$17,757,449 (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 12% over the prior year.

**TABLE 4**

<b>Capital Assets, net As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2008 (as restated)</b>
<b>Non-depreciable assets:</b>		
Land	\$ 1,570,654	\$ 1,570,654
Construction in progress	2,324,270	3,786,597
<b>Depreciable assets:</b>		
Land improvements	1,468,305	1,582,520
Buildings and buildings improvements	9,092,529	6,331,494
Infrastructure	1,074,451	1,021,776
Vehicles, machinery and equipment	2,227,240	1,591,444
<b>Total</b>	<b>\$ 17,757,449</b>	<b>\$ 15,884,485</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

The Municipality's major capital projects that were still in construction as of June 30, 2009 are as follows:

- Improvements to the Municipal Cementery - \$889,874
- Construction of "Plaza-Mirador San Pedro" - \$467,622
- Construction of Piñalejos basketball court - \$266,093
- Remodeling of old Family Department building - \$228,505

During the fiscal year 2008-2009 the Municipality finished some significant projects such as the improvements to the Jose Basora Baseball Park (\$1,759,135), and the construction of the Municipal Library (\$692,185). The Municipality also acquired a total of \$1,007,271 in vehicles and machinery and equipment during the fiscal year 2008-2009, including six trucks for \$491,867, an ambulance for \$88,000, and ten other vehicles for \$223,229.

The Municipality's fiscal year 2009-2010 consolidated capital budget calls for a significant amount of projects including the conclusion of the projects described above, and other minor projects still in construction at June 30, 2009 with an estimated remaining cost of over \$1,450,000. Among other projects, the Municipality plans to start the construction of a basketball court in La Haya ward at an estimated cost of \$400,000, and the installation of air conditioning systems in the Juan Lluch basketball court at an estimated cost of \$290,000. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds. More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**Long term debt**

At year-end, the Municipality had \$9,733,000 in general and special bonds and notes, a decrease of 2% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2009 and 2008:

**TABLE 5**

<b>Outstanding Long-term Debt</b>			
<b>Fiscal years ended June 30,</b>			
	<b>Governmental Activities</b>		
	<b>2009</b>	<b>2008 (as restated)</b>	
General and special obligation bonds and notes	\$ 9,733,000	\$	9,884,716
Note payable to CRIM – Law No. 42	314,620		320,456
Note payable to CRIM – LIMS	73,259		99,684
Note payable to CRIM – financing of delinquent accounts	123,464		128,832
Capital Leases	51,862		8,130
Landfill closure and post-closure care costs	829,165		696,075
Compensated absences	2,442,276		2,779,207
Christmas bonus payable	242,337		294,832
Judgments and claims	1,000		-
P.R. Department of Treasury - property taxes	3,255		-
Payable to PREPA	182,909		144,339
Liabilities expected to be refinanced	364,040		-
Note payable to General Service Administration	284,881		-
<b>Total</b>	<b>\$ 14,646,068</b>	<b>\$</b>	<b>14,356,271</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

The Municipality reported a net increase in the other long term debts of \$441,513. This increase was mostly affected by the net effect from the decrease of \$336,931 in the compensated absences debt, with increases of \$364,040, \$284,881 and \$133,090 from the new debt from liabilities expected to be refinanced, the new note payable to the General Service Administration, and the liability of landfill closure and post-closure care costs respectively. More detailed information about the Municipality's long term liabilities is presented in Note G of the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's officials considered certain factors when setting the fiscal year 2008-2009 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 17.8%, which compares with the Commonwealth rate of 15.2% at June, 2009.

For year 2009-2010 the Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2009-2010 are \$10,684,601 representing an increase of 5% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of 2009-2010 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works. The construction industry has been one of the major sources of income generated by the Municipality, contributing with construction permits fees from housing projects. This industry has also generated another type of permanent revenue in the form of property taxes which has been the principal individual source of revenues in the last few years. Management believes that this contribution level will be maintained in next year. In addition the sales and use taxes, along to recent impositions in permit fees are expected to increase significantly the income generated by the Municipality.

**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 any questions about this report or need any additional information contact the Finance Department at the Municipality of Lajas, PO Box 910 Lajas, P.R. 00667.

***BASIC FINANCIAL STATEMENTS***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

<b>ASSETS</b>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 45,597
Receivables, net:	
Fees and charges from services	345,448
Due from:	
Commonwealth Government (note C)	621,433
Federal Government (note C)	382,731
Restricted assets:	
Cash and cash equivalents	4,526,415
Cash with fiscal agent	5,019,907
Deferred bond issuance costs	35,920
Capital assets (note F):	
Land and construction in progress	3,894,924
Other capital assets, net	13,862,525
Total capital assets, net	<u>17,757,449</u>
<b>Total assets</b>	<u><u>\$ 28,734,900</u></u>
 <b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 1,108,241
Interest payable	155,524
Due to:	
Commonwealth Government (note C)	253,245
Deferred revenues:	
Municipal License taxes	642,626
Intergovernmental-Commonwealth agencies	27,284
Federal grants	14,503
Long term liabilities (note G):	
Due within one year	1,679,566
Due in more than one year	12,966,502
<b>Total liabilities</b>	<u>16,847,491</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	13,128,098
Restricted for:	
Debt service	1,325,906
Capital Projects	4,144,907
Other specified purposes	358,933
Unrestricted (deficit)	<u>(7,070,435)</u>
<b>Total net assets</b>	<u><u>\$ 11,887,409</u></u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2009**

<u>Functions</u>	<u>Program Revenues</u>			<u>Net (expenses) revenues and changes in net assets</u>	
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>					
General government	\$ 4,635,973	\$ 1,298,244	\$ 406,245	\$ -	\$ (2,931,484)
Public works and sanitation	5,560,367	131,699	150,028	1,910,893	(3,367,747)
Public safety	757,122	-	93,367	-	(663,755)
Culture and recreation	895,322	15,527	43,883	-	(835,912)
Health	384,432	-	-	-	(384,432)
Welfare and community development	1,626,547	-	1,036,906	185,491	(404,150)
Interest on long term debt	455,943	-	-	-	(455,943)
<b>Total</b>	<b><u>\$ 14,315,706</u></b>	<b><u>\$ 1,445,470</u></b>	<b><u>\$ 1,730,429</u></b>	<b><u>\$ 2,096,384</u></b>	<b><u>\$ (9,043,423)</u></b>
 <b>General revenues :</b>					
Taxes:					
					2,020,141
					728,807
					1,104,267
					5,669,718
					163,899
					287,035
					<u>9,973,867</u>
					930,444
					<u>10,956,965</u>
					<u>\$ 11,887,409</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	
<b>Assets</b>								
Cash and cash equivalents	\$ 45,597	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,597
Receivables, net:								
Fees and charges from services	327,563	-	-	-	-	-	17,885	345,448
Due from:								
Commonwealth Government	453,164	-	168,269	-	-	-	-	621,433
Federal Government	-	-	-	322,889	-	-	59,842	382,731
Other funds (note D)	181,772	23,576	-	-	-	-	-	205,348
Advances to other funds	-	12,690	-	-	-	-	-	12,690
Restricted assets:								
Cash and cash equivalents	-	2,303,346	-	5,154	-	1,866,746	351,169	4,526,415
Cash with fiscal agent	45,956	-	1,312,634	-	2,018,930	-	1,642,387	5,019,907
<b>Total assets</b>	<b>\$ 1,054,052</b>	<b>\$ 2,339,612</b>	<b>\$ 1,480,903</b>	<b>\$ 328,043</b>	<b>\$ 2,018,930</b>	<b>\$ 1,866,746</b>	<b>\$ 2,071,283</b>	<b>\$ 11,159,569</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 513,454	\$ 90,640	\$ -	\$ 233,588	\$ 26,701	\$ 138,170	\$ 105,688	\$ 1,108,241
Matured bonds and interest payable	-	-	678,379	-	-	-	-	678,379
Due to:								
Commonwealth Government	253,245	-	-	-	-	-	-	253,245
Other funds	-	-	-	89,301	-	23,576	92,471	205,348
Advances from other funds	12,690	-	-	-	-	-	-	12,690
Deferred revenues (notes E and J):								
Municipal License taxes	642,626	-	-	-	-	-	-	642,626
Intergovernmental-Commonwealth Government	363,247	-	-	-	-	-	27,284	390,531
Federal grants	-	-	-	225,619	-	-	9,349	234,968
<b>Total liabilities</b>	<b>1,785,262</b>	<b>90,640</b>	<b>678,379</b>	<b>548,508</b>	<b>26,701</b>	<b>161,746</b>	<b>234,792</b>	<b>3,526,028</b>
<b>Fund Balances (deficit):</b>								
Reserved for:								
Encumbrances	156,411	-	-	-	-	-	-	156,411
Debt Service	-	-	802,524	-	-	-	-	802,524
Capital projects	-	2,236,282	-	-	1,992,229	1,705,000	1,345,045	7,278,556
Other specified purposes	45,956	-	-	-	-	-	491,446	537,402
Advances	-	12,690	-	-	-	-	-	12,690
Unreserved	(933,577)	-	-	(220,465)	-	-	-	(1,154,042)
<b>Total fund balances (deficit)</b>	<b>(731,210)</b>	<b>2,248,972</b>	<b>802,524</b>	<b>(220,465)</b>	<b>1,992,229</b>	<b>1,705,000</b>	<b>1,836,491</b>	<b>7,633,541</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,054,052</b>	<b>\$ 2,339,612</b>	<b>\$ 1,480,903</b>	<b>\$ 328,043</b>	<b>\$ 2,018,930</b>	<b>\$ 1,866,746</b>	<b>\$ 2,071,283</b>	<b>\$ 11,159,569</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2009**

<b>Total fund balances- governmental funds</b>		<b>\$ 7,633,541</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet:		17,757,449
Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds:		
Deferred charges - bond issuance costs		35,920
Other assets are not available to pay current-period expenditures and therefore are deferred in the funds:		
Due from Commonwealth Government:		
Christmas bonus reimbursement	\$ 121,169	
Property taxes- General Fund	59,169	
P.R. Electric Power Authority (PREPA)	182,909	363,247
Due from Federal Government:		
Federal grant - CDBG		220,465
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:		(27,145)
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	9,183,000	
Note payable to CRIM-Law No. 42	314,620	
Note payable to CRIM-LIMS	73,259	
Note payable to CRIM-financing of delinquent accounts	123,464	
Municipal landfill closure and post closure	829,165	
Payable to CRIM-excess of property tax advances	3,255	
Compensated absences	2,442,276	
Christmas Bonus	242,337	
Obligations under capital leases	51,862	
Note payable to P.R. General Services Administration	284,881	
Liabilities expected to be refinanced	364,040	
Debt payable to P.R. Electric Power Authority (PREPA)	182,909	
Judgments and claims	1,000	(14,096,068)
<b>Net assets of governmental activities:</b>		<b><u>\$ 11,887,409</u></b>

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAJAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	
<b>Revenues:</b>								
Taxes:								
Property taxes (note I)	\$ 1,618,735	\$ -	\$ 518,905	\$ -	\$ -	\$ -	\$ -	\$ 2,137,640
Municipal license taxes (note J)	728,807	-	-	-	-	-	-	728,807
Sales and use taxes (note K)	715,810	-	388,457	-	-	-	-	1,104,267
Intergovernmental:								
Commonwealth Government (note L)	5,912,564	428,494	-	-	-	1,278,132	542,443	8,161,633
Federal Government	-	-	-	379,289	-	-	925,845	1,305,134
Fees, fines and charges for services	1,277,732	-	-	-	-	-	15,527	1,293,259
Interest	2,095	6,757	6,315	-	77,480	7,641	63,611	163,899
Other	79,772	-	-	-	-	-	34,553	114,325
<b>Total revenues</b>	<b>10,335,515</b>	<b>435,251</b>	<b>913,677</b>	<b>379,289</b>	<b>77,480</b>	<b>1,285,773</b>	<b>1,581,979</b>	<b>15,008,964</b>
<b>Expenditures:</b>								
Current:								
General government	4,554,939	451	-	195,684	-	-	57,734	4,808,808
Public works and sanitation	4,175,293	228,988	-	191,885	338	245,930	379,811	5,222,245
Public Safety	663,584	-	-	-	-	-	17,854	681,438
Culture and recreation	825,299	-	-	-	-	-	13,683	838,982
Health	363,202	-	-	-	-	-	-	363,202
Welfare and community development	427,457	10,553	-	303,879	-	-	721,744	1,463,633
Capital outlays	63,712	465,783	-	3,234	162,245	644,930	1,077,945	2,417,849
Debt Service:								
Principal	-	-	605,000	-	-	-	-	605,000
Interest	-	-	421,728	-	-	-	-	421,728
Bond issuance costs	3,067	-	-	-	350	-	4,239	7,656
<b>Total expenditures</b>	<b>11,076,553</b>	<b>705,775</b>	<b>1,026,728</b>	<b>694,682</b>	<b>162,933</b>	<b>890,860</b>	<b>2,273,010</b>	<b>16,830,541</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(741,038)</b>	<b>(270,524)</b>	<b>(113,051)</b>	<b>(315,393)</b>	<b>(85,453)</b>	<b>394,913</b>	<b>(691,031)</b>	<b>(1,821,577)</b>
<b>Other financing sources (uses):</b>								
Proceeds from general obligation bonds	440,000	-	-	-	-	-	255,000	695,000
Proceeds from capital leases	57,992	-	-	-	-	-	-	57,992
Proceeds from note payable	320,072	-	-	-	-	-	-	320,072
Proceeds from liabilities expected to be refinanced	364,040	-	-	-	-	-	-	364,040
Payments of long term debt debts	(483,886)	-	-	-	-	-	-	(483,886)
Transfers in	151,953	-	147,680	117,660	-	-	16,019	433,312
Transfers (out)	(281,359)	(5,573)	(5,323)	-	(77,480)	-	(63,577)	(433,312)
<b>Total other financing resources (uses)</b>	<b>568,812</b>	<b>(5,573)</b>	<b>142,357</b>	<b>117,660</b>	<b>(77,480)</b>	<b>-</b>	<b>207,442</b>	<b>953,218</b>
<b>Net change in fund balances</b>	<b>(172,226)</b>	<b>(276,097)</b>	<b>29,306</b>	<b>(197,733)</b>	<b>(162,933)</b>	<b>394,913</b>	<b>(483,589)</b>	<b>(868,359)</b>
<b>Fund balance at beginning of year, as restated</b>	<b>(558,984)</b>	<b>2,525,069</b>	<b>773,218</b>	<b>(22,732)</b>	<b>2,155,162</b>	<b>1,310,087</b>	<b>2,320,080</b>	<b>8,501,900</b>
<b>Fund balance at end of year</b>	<b>\$ (731,210)</b>	<b>\$ 2,248,972</b>	<b>\$ 802,524</b>	<b>\$ (220,465)</b>	<b>\$ 1,992,229</b>	<b>\$ 1,705,000</b>	<b>\$ 1,836,491</b>	<b>\$ 7,633,541</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
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: \$ (868,359)**

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	\$ 2,417,849	
Less: current year depreciation	<u>(717,180)</u>	1,700,669

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	7,654	
Amortization of bond issuance costs	<u>(7,351)</u>	303

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Christmas bonus reimbursement	121,169	
Property Taxes-General Fund	59,169	
P.R. Electric Power Authority (PREPA)	110,740	
Federal Grant - CDBG	197,733	
Donated Capital Assets	<u>172,710</u>	661,521

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

Christmas bonus reimbursement-prior year	(196,009)	
Property Taxes-General Fund	(176,668)	
P.R. Electric Power Authority (PREPA)	<u>(72,170)</u>	(444,847)

Proceeds from long term debts are an other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:

(1,416,590)

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:

(417)

Expenditures reported in funds which are not reported as expenses in the Statement of Activities:

Matured bonds principal payments (net change)		170,000
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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	846,716	
Other long term liabilities	<u>770,501</u>	1,617,217

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	(242,337)	
Debt payment to P.R. Electric Power Authority	(110,740)	
Prior Year Property Taxes	(3,255)	
Municipal Landfill	(133,090)	
Judgment and Claims	(1,000)	
Accrued interest (net change)	<u>1,369</u>	(489,053)

**Change in net assets of governmental activities: \$ 930,444**

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Lajas** was founded on July 1, 1883. 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 fourteen (14) members of the Municipal Legislature. The Municipality engages in 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 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 Lajas** (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 exist between the primary government and the potential component unit.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC 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.

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

The financial report of the Municipality consists of a 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**

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 LAJAS  
NOTES TO BASIC 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 and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

**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 or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

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

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

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

**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.

**\$2,215,000 Loan Issuance Fund:** This fund accounts for proceeds from the \$2,215,000 special obligation note issuance by the Governmental Development Bank of P.R. (GDB) for specific purposes that is, financing of capital improvements.

**Permanent Capital Improvements Fund:** The Permanent Capital Improvement fund is used to account for the moneys received from the \$575,000,000 in 2006 Series A Public Improvement Bonds issued by Commonwealth Government for specific purposes that is, financing of capital improvements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Governmental funds 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 90 days of the end of the current fiscal period except for property taxes for which the availability period is 60 days.

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 deferred revenues in the governmental funds statements 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 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) 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).

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**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, 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.

**2. *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 Legislature Resolutions is restricted since their use is limited as 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 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.

**3. *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.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**4. Interfund receivables and payables**

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

**5. 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.

**6. Capital assets**

Capital assets of the primary government, with include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities in the Statements 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 \$500 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets 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	30-50
Infrastructure	20-50
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  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**7. 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, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

**8. 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.

**9. 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.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued**

**10. Fund balances and Net Assets**

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

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: Represents 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 as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments

Advances: Represent the non current portion of interfund loans.

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

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

Invested in capital assets, net of related debt: Consists 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: Represents 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).

**COMMONWEALTH OF PUERTO RICO  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

**11. 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.

**12. 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 LAJAS 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 send 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.

**13. 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.

**14. Future adoption of accounting pronouncements**

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

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

<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 on the Municipality's 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.

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 \$4,592,180.

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 \$5,021,592.

**COMMONWEALTH OF PUERTO RICO  
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**NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES**

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

	Commonwealth Government	Federal Government
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$182,909	\$ -
Municipal Revenue Collection Center (CRIM)- intergovernmental subsidy(general fund)	59,169	-
P.R. Department of Treasury – Christmas bonus reimbursement	121,169	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	89,917	-
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	89,109	-
P.R. Department of Treasury – sales and use taxes- Municipal Redemption Fund	79,160	-
<b><u>Other governmental funds:</u></b>		
Office of Commissioner of Municipal Affairs - CDBG	-	322,889
P.R. Department of Family – Child Care	-	52,045
Office of Public Safety Affairs- Homeland Security Grant Program	-	7,797
	<b><u>\$621,433</u></b>	<b><u>\$382,731</u></b>

Certain amounts are recorded as deferred revenue in the governmental funds statements since they are not available as required by current standards. See related note E.

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

	Commonwealth Government
General Services Administration	\$ 48,856
P.R. Employees Retirement System (special laws and current debt)	159,591
P.R. Aqueduct and Sewer Authority (PRASA)	35,392
P.R. Department of Treasury	9,406
	<b><u>\$253,245</u></b>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE D- INTERFUND TRANSACTIONS**

**1. Due from/to other funds**

Amounts due from / to other funds:

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	<u>Other Governmental Funds:</u>	
	CDBG	\$ 89,301
	Child Care	52,045
	Section 8 HCV	14,899
	Special Communities	18,140
	Family Care	7,387
 <u>Major Fund:</u> Commonwealth Legislative Resolutions	 <u>Major Fund:</u> Capital Improvements Fund	 23,576
		<u>\$ 205,348</u>

**2. Transfers in (out):**

Transfers between individual funds were made for operational purposes. Transfers includes (1) interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund (2) interest in Commonwealth Legislature Resolutions funds which is transferred to the general fund and, (3) principal and interest payments of long term debt transferred from the general fund to the debt service fund.

**NOTE E - DEFERRED REVENUES – GOVERNMENTAL FUNDS**

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

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 182,909	\$ -
Municipal Revenue Collection Center (CRIM)- intergovernmental subsidy(general fund)	59,169	-
P.R. Department of Treasury – Christmas bonus reimbursement	121,169	-
<b><u>Other governmental funds:</u></b>		
Law No. 2	25,089	-
Office of Commissioner of Municipal Affairs - CDBG	-	225,619
Federal Transit Administration (FTA)	-	9,213
Others	2,195	136
	<u>\$ 390,531</u>	<u>\$ 234,968</u>

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE F- 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, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,570,654	\$ -	\$ -	\$ 1,570,654
Construction in progress	3,786,597	1,526,285	2,988,612	2,324,270
<b>Total capital assets not being depreciated:</b>	<b>5,357,251</b>	<b>1,526,285</b>	<b>2,988,612</b>	<b>3,894,924</b>
Capital assets, being depreciated:				
Land improvements	3,800,899	-	-	3,800,899
Buildings and building improvements	8,125,970	2,923,212	-	11,049,182
Infrastructure	30,432,051	122,405	-	30,554,456
Vehicles, machinery and equipment	4,997,415	1,007,271	205,962	5,798,724
<b>Total capital assets being depreciated</b>	<b>47,356,335</b>	<b>4,052,888</b>	<b>205,962</b>	<b>51,203,261</b>
Less accumulated depreciation for:				
Land improvements	2,218,379	114,215	-	2,332,594
Buildings and building improvements	1,794,476	162,177	-	1,956,653
Infrastructure	29,410,275	69,730	-	29,480,005
Vehicles, machinery and equipment	3,405,971	371,058	205,545	3,571,484
<b>Total accumulated depreciation</b>	<b>36,829,101</b>	<b>717,180</b>	<b>205,545</b>	<b>37,340,736</b>
<b>Total capital assets being depreciated, net</b>	<b>10,527,234</b>	<b>3,335,708</b>	<b>417</b>	<b>13,862,525</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 15,884,485</b>	<b>\$ 4,861,993</b>	<b>\$ 2,989,029</b>	<b>\$ 17,757,449</b>

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

**Governmental activities:**

General government	\$ 181,299
Public works and sanitation	219,713
Public safety	75,684
Culture and recreation	56,340
Welfare and community development	162,914
Health	21,230
<b>Total depreciation expense, governmental activities</b>	<b>\$ 717,180</b>

**COMMONWEALTH OF PUERTO RICO  
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JUNE 30, 2009**

**NOTE G- 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:

	Balance at July 1, 2008 as restated	Increases	Decreases	Balance at June 30, 2009	Due within one year
General, Special Obligation Bonds and Notes	\$ 9,884,716	\$ 695,000	\$ 846,716	\$ 9,733,000	\$ 609,000
Note payable to CRIM- Law No. 42	320,456	-	5,836	314,620	6,202
Note payable to CRIM- LIMS	99,684	-	26,425	73,259	28,021
Note payable to CRIM- financing of delinquent accounts	128,832	-	5,368	123,464	5,368
Capital Leases	8,130	57,992	14,260	51,862	14,843
Landfill closure and post-closure care costs	696,075	133,090	-	829,165	-
Compensated absences	2,779,207	-	336,931	2,442,276	235,884
Christmas Bonus	294,832	242,337	294,832	242,337	242,337
Judgments and claims	-	1,000	-	1,000	1,000
Note Payable to CRIM- Property Taxes	-	3,255	-	3,255	-
Payable to PREPA	144,339	110,740	72,170	182,909	72,169
Liabilities expected to be refinanced	-	364,040	-	364,040	364,040
Note payable to General Service Administration	-	299,560	14,679	284,881	100,702
	<u>\$ 14,356,271</u>	<u>\$ 1,907,014</u>	<u>\$ 1,617,217</u>	<u>\$ 14,646,068</u>	<u>\$ 1,679,566</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 \$9,733,000. 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 certain long term debt issued for operational purposes (special obligation bonds of \$945,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

**COMMONWEALTH OF PUERTO RICO  
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**NOTE G- LONG TERM DEBT - Continued**

Principal and interest payments of general obligation notes of \$995,000 and special obligation notes of \$2,215,000 are made through the "Municipal Redemption Fund".

A detail of the general and special obligation bonds and notes as of June 30, 2009 follows:

	<b>Outstanding Amount</b>
1996 general obligation bonds of \$415,000 due in annual installments of \$10,000 to \$40,000 through July 1, 2013; bearing interest at rates ranging from 4.70% to 6.58% (6.20% at June 30, 2009)	\$ 180,000
1996 general obligation bonds of \$1,000,000 due in annual installments of \$24,000 to \$66,000 through January 1, 2021; bearing interest at 4.25%	629,000
2001 general obligation bonds of \$770,000 due in annual installments of \$20,000 to \$75,000 through July 1, 2020; bearing interest at rates ranging from 2.70% to 5.29% (4.10% at June 30, 2009)	605,000
2002 general obligation bonds of \$563,000 due in annual installments of \$13,000 to \$37,000 through January 1, 2029; bearing interest at 4.50%	494,000
2004 general obligation bonds of \$630,000 due in annual installments of \$45,000 to \$80,000 through July 1, 2014; bearing interest at rates ranging from 3.27% to 6.62% (5.40% at June 30, 2009)	415,000
2005 general obligation bonds of \$665,000 due in annual installments of \$55,000 to \$80,000 through July 1, 2014; bearing interest at rates ranging from 3.93% to 6.62% (5.40% at June 30, 2009)	435,000
2005 general obligation bonds of \$945,000 due in annual installments of \$95,000 to \$145,000 through July 1, 2015; bearing interest at rates ranging from 2.42% to 7.50% (5.40% at June 30, 2009)	850,000
2006 general obligation bonds of \$2,015,000 due in annual installments of \$30,000 to \$155,000 through July 1, 2030; bearing interest at rates ranging from 3.93% to 6.62% (5.40% at June 30, 2009)	1,915,000
2006 general obligation bonds of \$63,000 due in annual installments of \$1,000 to \$4,000 through January 1, 2031; bearing interest at rates ranging from 4.37% to 4.50% (4.50% at June 30, 2009)	60,000

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G- LONG TERM DEBT - Continued**

	<b>Outstanding Amount</b>
2007 general obligation bonds of \$260,000 due in annual installments of \$15,000 to \$35,000 through July 1, 2017; bearing interest at rates ranging from 3.93% to 7.50% (5.40% at June 30, 2009)	245,000
2007 general obligation notes of \$995,000 due in annual installments of \$115,000 to \$340,000 through July 1, 2014; bearing interest at rates ranging from 5.00% to 7.50% (5.40% at June 30, 2009)	995,000
2008 special obligation notes of \$2,215,000 due in annual installments of \$30,000 to \$190,000 through July 1, 2032; bearing interest at rates ranging from 2.42% to 7.50% (5.40% at June 30, 2009)	2,215,000
2008 general obligation bonds of \$440,000 due in annual installments of \$30,000 to \$60,000 through July 1, 2018; bearing interest at rates ranging from 2.42% to 7.25% (5.40% at June 30, 2009)	440,000
2008 general obligation notes of \$255,000 due in annual installments of \$30,000 to \$45,000 through July 1, 2015; bearing interest at rates ranging from 2.42% to 7.50% (5.40% at June 30, 2009)	255,000
	<b>\$ 9,733,000</b>

The debt services requirement to amortize general and special obligation bonds and notes as of June 30, 2009 follows:

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>
2010	\$ 609,000	\$ 538,719
2011	651,000	545,402
2012	693,000	499,705
2013	741,000	451,040
2014	795,000	398,474
2015-2019	2,559,000	1,469,017
2020-2024	1,303,000	977,093
2025-2029	1,399,000	555,425
2030-2034	983,000	91,435
<b>Totals</b>	<b>\$ 9,733,000</b>	<b>\$ 5,526,310</b>

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G- LONG TERM DEBT - Continued**

**3. Other long-term liabilities**

Outstanding  
Amount

**Note payable to CRIM (Law No. 42)** – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico own to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund send to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On November 26, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$346,906, bearing interest at 6.18% and due on July 1, 2032. Debt service requirements in future years are as follows:

**\$ 314,620**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 6,202	\$ 19,373
2011	6,592	18,983
2012	7,006	18,569
2013	7,447	18,128
2014	7,915	17,661
2015-2019	47,687	80,189
2020-2024	64,673	63,203
2025-2029	87,709	40,166
2030-2032	79,389	10,123
<b>Totals</b>	<b>\$ 314,620</b>	<b>\$ 286,395</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G- LONG TERM DEBT - Continued**

Outstanding Amount

**Note payable to CRIM (LIMS)** - On November 28, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$238,361 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 \$15,985 including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the CRIM. Debt service requirements in future years are as follows:

**73,259**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 28,021	\$ 3,809
2011	29,713	2,109
2012	15,525	385
<b>Totals</b>	<b>\$ 73,259</b>	<b>\$ 6,303</b>

**Note payable to CRIM (Financing of delinquent accounts)**- On March 27, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$186,364 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 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 5 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 5 years any collection from those delinquent accounts was credited to the loan principal. After the 5 year period the loan outstanding balance of \$134,200 was restructured for a 25 years period. Debt service requirements in future years are as follows:

**123,464**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,368	\$ 7,429
2011	5,368	7,262
2012	5,368	6,928
2013	5,368	6,594
2014	5,368	6,261
2015-2019	26,840	26,294
2020-2024	26,840	17,947
2025-2029	26,840	9,599
2030-2032	16,104	1,753
<b>Totals</b>	<b>\$ 123,464</b>	<b>\$ 90,067</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G- LONG TERM DEBT - Continued**

	<b>Outstanding Amount</b>
<p><b>Obligation under capital lease</b> – The Municipality is obligated under two capital lease agreements with a third parties that expires on September 1, 2010 and June 1, 2013. As of June 30, 2009 the capitalized cost of capital leased equipment (photocopiers) amounted to \$ 74,896 and is being paid in monthly installments of \$ 1,379 including interest at 5.00% and 3.693% The present value of future minimum lease payments of both lease agreements as of June 30, 2009 follows:</p>	<b>51,862</b>
<p><b>Year ending June 30,</b></p>	<p><b>Amount</b></p>
2010	\$ 16,548
2011	13,672
2012	12,720
2013	12,720
Less: Amount representing interest	(3,798)
<p><b>Present value of minimum lease payments</b></p>	<p><b>\$ 51,862</b></p>
<p><b>Landfill obligation</b> - represent the outstanding balance of the estimated liability for landfill closure and post-closure care costs, based on 47% usage of the landfill. The total estimate for these costs amounts to \$1,753,700 as of June 30, 2009.</p>	<b>829,165</b>
<p><b>Compensated absences</b> - 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</p>	<b>2,442,276</b>
<p><b>Christmas Bonus</b> - represent the accrued portion corresponding to fiscal year 2008-2009 of the Christmas bonus to be paid in December 2009.</p>	<b>242,337</b>
<p><b>Claims and judgments</b> - represent the final costs of a legal case paid subsequent to June 30, 2009. The awarded amount will be paid with unrestricted funds.</p>	<b>1,000</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G- LONG TERM DEBT - Continued**

	<b>Outstanding Amount</b>
<b>Payable to CRIM, property tax advances</b> - represent amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2008-2009. (See related note I)	<b>3,255</b>

<p><b>Payable to PREPA</b> - 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 ("CELL") based on certain requirements as specified by the mentioned Act. The amount of CELL 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 exceeds the CELL obligation determined by PREPA by \$216,509. As communicated by PREPA the excess amount was recorded as a payable to the Municipality and is amortized over a 3 year period against the corresponding receivable for the same amount. As of June 30, 2009 the outstanding amount of \$72,169 is recognized by the Municipality as a receivable and a liability to PREPA. For fiscal year 2007-2008 the Municipality's annual energy charges amounts to \$1,169,646 but the CELL obligation amounted to \$1,058,906. The excess amount of \$110,740 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:</p>	<b>182,909</b>
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<b>June 30</b>	<b>Principal</b>
2010	\$ 72,169
2011-2015	110,740
Totals	<b>\$ 182,909</b>

<p><b>Liabilities expected to be refinanced</b> - As of June 30, 2009 the Municipality has outstanding matured debts of \$168,297 and \$195,743 for sick leave benefits and vacation leave of retired employees, respectively. The Municipality intends to refinance these debts on a long term basis through the issuance of a \$370,000 general obligation bond. The issuance was approved by GDB on June 17, 2009 and the bonds actually issued on July 2009.</p>	<b>364,040</b>
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G- LONG TERM DEBT – Continued**

**Note payable to P.R. General Services Administration**

– On March 5, 2009 the Municipality entered into a financing agreement with the Puerto Rico General Services Administration to refinance on a long term basis a \$320,072 debt for goods and services provided by this Agency to the Municipality in current and prior years. This agreement is in the form of a non-interest bearing note (imputed interest of 4.06%) due on June 15, 2012 and was recorded at its present value of \$299,560 net of an unamortized discount of \$20,512. The note is payable in monthly installments of \$8,000 and is being paid from unrestricted funds. The principal and discount amortization maturities are as follows:

**284,881**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$100,702	\$11,298
2011	90,188	5,812
2012	<u>93,991</u>	<u>2,081</u>
<b>Totals</b>	<b><u>\$284,881</u></b>	<b><u>\$19,191</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE H – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS**

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 the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on 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 an outstanding balance of \$829,165 as of June 30, 2009, which is based on a 47% usage of the landfill. It is estimated that an additional \$924,535 will be recognized as closure and post-closure care expenditures between the balance sheet date and the year the landfill is expected to be filled to capacity (2016). The estimated total current costs of the landfill closure and post-closure care (\$1,753,700) 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. As of June 30, 2009, the Municipality has not made contributions to finance closure and post-closure care costs.

**NOTE I – 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:

Description	Personal Property	Real Property
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:	2.00%	2.00%
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:	(.20%)	(.20%)
<b>Total percent to be paid by taxpayers:</b>	<b>6.83%</b>	<b>8.83%</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE I – PROPERTY TAXES - Continued**

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.

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. The Municipality has a net payable of \$3,255 resulting from the preliminary settlement 2008-2009 which is recorded as long term debt.

**NOTE J – 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 \$642,626 is recorded as deferred revenues.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE K – 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. 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, effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amends 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 the 1.5% is collected by the Municipalities Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Of the amount collected by the PRDT, .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:

- a..2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b..2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- c..1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance 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 PRDT. Tax is due each 20th day of each month based on tax collected in the preceding month. A total \$43,607 sales and use tax receivable from PRDT represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality by the PRDT on or before July 20, net of uncollectible accounts (1%); \$46,310 and \$79,160 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE L – INTERGOVERNMENTAL REVENUES**

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

	<b>Amount</b>
Amount of municipal equalization fund and subsidy send by CRIM	\$ 4,235,018
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,274,961
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	196,009
Puerto Rico Department of Labor – Law No.52	165,216
Puerto Rico Department of Labor – Law No.82	41,360
	<b>\$ 5,912,564</b>

**NOTE M – 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 LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE M – 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 subject to the total accumulate 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 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 have 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 fiscal year, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000
2009	\$ 192,243	\$ 214,029

**NOTE N – POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note M, 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. For the fiscal year ended, costs related to these post employment benefits amounted to \$77,416. These benefits are recorded as expenditures in the general fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE O – 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 \$113,597. 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**

As of June 30, 2009 the Municipality maintained unspent agreements of \$735,770 for design, construction, improvements or renovation of certain municipal facilities.

**NOTE P – CONTINGENCIES**

**1. Federal and Commonwealth Grants**

Projects financed by the 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 would not be covered by insurance. As a result of one settled case as of June 30, 2009 and not to be covered by insurance, the Municipality accrued \$1,000 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

**NOTE Q – FUND BALANCE DEFICIT**

The Community Development Block Grant Program fund included as part of the other governmental funds in the fund statements disclosed a fund balance deficit of \$220,465 resulting 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 (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE R – NET ASSETS AND FUND BALANCE RESTATEMENTS**

**1. Net assets**

Net assets at beginning of year have been adjusted to reflect the following restatements:

	<b>Amount</b>
Net assets at beginning of year as previously reported:	\$ 12,031,479
Restatements:	
Net correction of errors - capital assets	(1,378,028)
Net correction of errors - long term debts	465,870
Other correction of errors	(162,356)
Net assets at beginning of year as restated:	<b>\$ 10,956,965</b>

**2. Fund balances**

The following schedule reconciles the fund balance at July 1, 2008 as previously reported to the beginning fund balance, as restated:

Fund	Prior period adjustments			Balance at beginning of year, as restated
	Balance at beginning of year, as previously reported	Net fund reclassifications	Net correction of errors	
General fund	\$ 142,599	\$ ( 233,917)	\$ (467,666)	\$ (558,984)
Commonwealth Legislative Resolutions	2,680,245	-	(155,176)	2,525,069
Debt service	738,788	-	34,430	773,218
\$2,215,000 Loan Issuance	2,155,162	-	-	2,155,162
Permanent Capital Improvements	-	1,320,030	(9,943)	1,310,087
Other governmental funds	<u>3,372,816</u>	<u>(1,086,113)</u>	<u>10,645</u>	<u>2,297,348</u>
	<b><u>\$9,089,610</u></b>	<b><u>\$ -</u></b>	<b><u>\$(587,710)</u></b>	<b><u>\$8,501,900</u></b>

Net correction of errors column includes adjustments to correct overstatements and/or understatements of assets and liabilities for clerical errors, errors in application of revenues to proper availability period and completeness of amounts and/or transactions.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 5 – SUBSEQUENT EVENTS**

On July, 2009 the Governmental Development Bank of Puerto Rico (GDB) issued a 16 year \$370,000 general obligation bond (GOB) to finance the payment of compensated absences liabilities to retired employees. The GOB, which will be repaid from property tax collections of debt service fund will bear interest at variable rates (LIBOR + 1.50%).

**END OF NOTES**

***REQUIRED SUPPLEMENTARY INFORMATION***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes:				
Property taxes	\$ 2,211,912	\$ 2,298,451	\$ 2,606,049	\$ 307,598
Municipal license taxes	707,000	707,000	731,598	24,598
Sales and use taxes	800,100	800,100	707,347	(92,753)
Intergovernmental	4,819,907	4,819,907	4,892,617	72,710
Fees, fines and charges for services	1,411,000	1,411,000	964,954	(446,046)
Interest	150,000	150,000	226,772	76,772
Other	100,000	100,000	157,279	57,279
<b>Total revenues</b>	<u>10,199,919</u>	<u>10,286,458</u>	<u>10,286,616</u>	<u>158</u>
<b>EXPENDITURES:</b>				
Current:				
General government	3,724,719	3,771,614	3,756,899	14,715
Public works and sanitation	3,970,392	4,060,821	4,191,173	(130,352)
Public safety	664,022	664,539	663,053	1,486
Culture and recreation	867,716	833,663	823,864	9,799
Health	369,472	363,953	363,202	751
Welfare and community development	448,348	430,618	427,457	3,161
<b>Total expenditures</b>	<u>10,044,669</u>	<u>10,125,208</u>	<u>10,225,648</u>	<u>(100,440)</u>
<b>Excess of revenues over expenditures</b>	155,250	161,250	60,968	(100,282)
<b>Other financing sources (uses):</b>				
Transfers out	(155,250)	(161,250)	(153,680)	7,570
<b>Total other financing sources (uses)</b>	<u>(155,250)</u>	<u>(161,250)</u>	<u>(153,680)</u>	<u>7,570</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (92,712)</u>	<u>\$ (92,712)</u>

The accompanying notes are an integral part of this required supplementary information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAJAS  
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 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 LAJAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**June 30, 2009**

**NOTE B - BUDGET TO GAAP RECONCILIATION - Continued**

<b>Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):</b>	<b>\$ (92,712)</b>
Budget to GAAP differences:	
<b>Entity differences:</b>	
Non budgeted funds recorded as revenues for financial reporting purposes:	217,334
Non budgeted funds recorded as expenditures for financial reporting:	(621,359)
Non budgeted transfers in:	45,817
Non budgeted transfers out:	(51,536)
Non budgeted other financing sources (uses):	440,000
<b>Basis of accounting differences:</b>	
Revenues recorded for financial reporting purposes but not in budgetary basis:	917,255
Revenues recorded in budgetary basis purposes but not in financial reporting:	(505,986)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	24,298
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(880,675)
<b>Timing differences:</b>	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	52,612
Prior year encumbrances recorded as expenditures for financial reporting purposes:	<u>(37,346)</u>
<b>Net change in fund balance (GAAP basis):</b>	<b><u>\$ (492,298)</u></b>