

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

**MUNICIPIO DE LAJAS
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010**



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS**

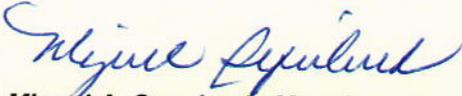
**BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITOR'S REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER OMB CIRCULAR A-133)**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**



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DE ASUNTOS
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Mr. Leovigildo Cotte-Torres
Mayor


Mr. Miguel A. Sepulveda-Mattei
Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS**

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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, 2010, which collectively comprise the Municipality of Lajas, Puerto Rico'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, 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 previously present fairly, in all material respects, financial position of the governmental activities and general fund of the Municipality of Lajas, Puerto Rico, as of June 30, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

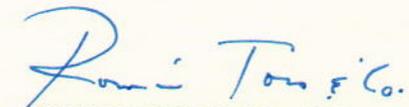
In accordance with Government Auditing Standards, we also issued our report dated February 11, 2011, on our consideration of the Municipality of Lajas, Puerto Rico's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 49 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Lajas, Puerto Rico's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


ROMAN TORO & CO., CSP
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Yauco, Puerto Rico
February 11, 2011

Stamp #2496036 was affixed to
the original of this report

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

To provide readers with an overview of the financial activities for the fiscal year ended June 30, 2010 we are presenting here an analysis of the financial performance of the Municipality of Lajas. For a better understanding of the financial position and the results of operations of the Municipality it should be read 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 2010 by \$10,970,412 (net assets).
- Revenues decreased by 13% while expenses decreased only .50% when compared with fiscal year 2009.
- Net change in net assets amounted to a negative change of \$916,997, a decrease of approximately 199% with respect to the prior year's positive net change of \$930,444.

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:

- A negative net change (decrease) in the fund balances of the Municipality's governmental funds for the amount of \$2,126,014 in the fiscal year 2010 resulted in reported ending fund balances of \$5,507,527. This fund balance includes a net unreserved deficit for the amount of \$2,439,583.
- For the year 2010 the General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$1,543,410 and an unreserved fund deficit of \$2,439,478. In the prior year there was an unreserved fund deficit of \$933,577.

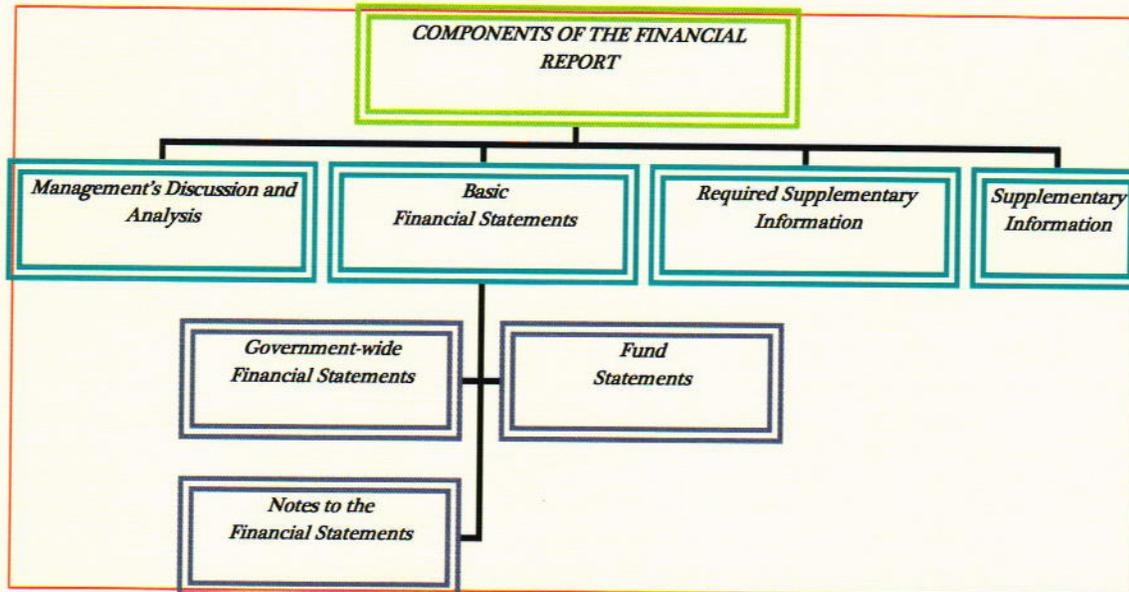
General Financial Highlights

- The investment in capital assets as of June 30, 2010 was \$18,822,252 (net of depreciation).
- Long-term debt decreased to \$14,600,425, or approximately a .3% decrease with respect to the prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$1,044,360.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's 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, 2010**

The government-wide statements report 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 as 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 as on balances of expendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

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

- **Notes to financial statements**

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

Required supplementary information

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

Supplementary information

The 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, 2010**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

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

TABLE 1
Summary Statement of Net Assets
As of June 30,

	Governmental Activities	
	2010	2009
Assets		
Current and other assets	\$ 9,992,792	\$ 10,977,451
Capital assets	18,822,252	17,757,449
Total assets	\$ 28,815,044	\$ 28,734,900
Liabilities		
Current and other liabilities	\$ 3,244,207	\$ 2,201,423
Long-term liabilities	14,600,425	14,646,068
Total liabilities	17,844,632	16,847,491
Net assets		
Invested in capital assets, net of related debt	14,274,634	13,128,098
Restricted	5,578,766	5,829,746
Unrestricted (deficit)	(8,882,988)	(7,070,435)
Total net assets	\$ 10,970,412	\$ 11,887,409

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2010, assets exceeded its liabilities by \$10,970,412, representing a decrease of 8% with respect to year 2009 caused basically due to a decrease in revenues during the year. This decrease was mostly affected by a 52% decrease in capital grants and contributions, and a 34% decrease in operating grants.



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, 2010**

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 2010, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long-term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt. Therefore, they are reported as part of the unrestricted net assets section.

Changes in net assets

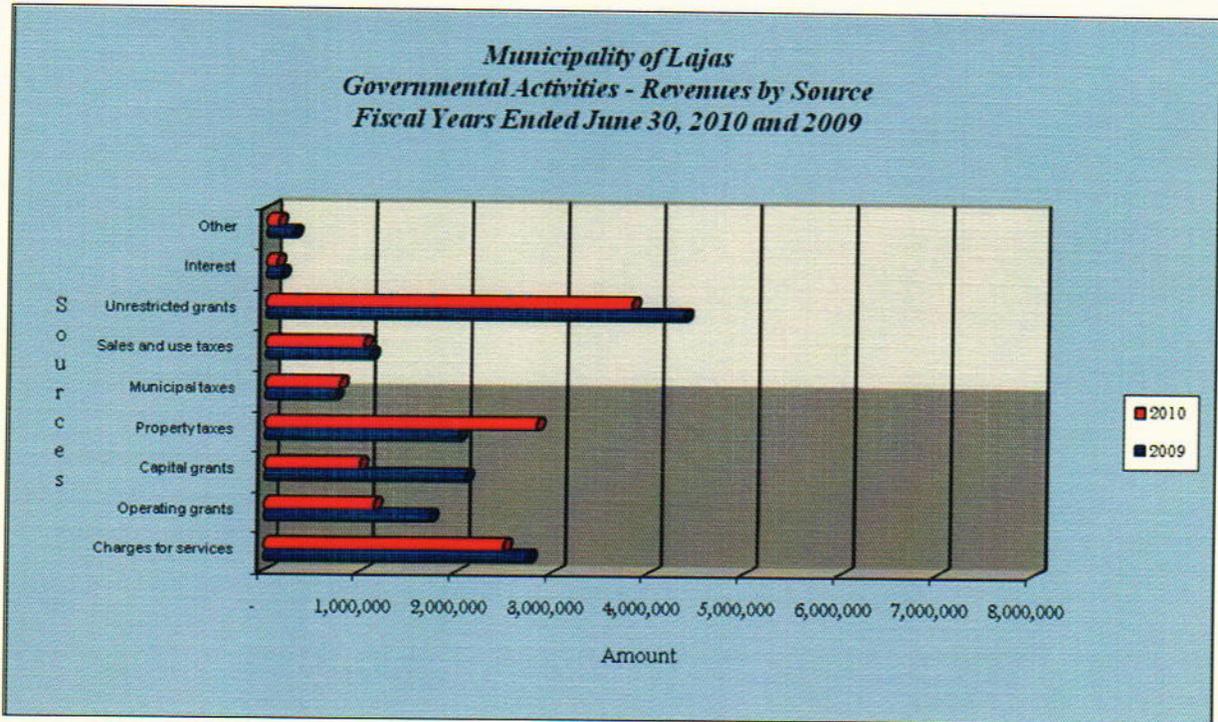
The following table summarizes the changes in net assets for the fiscal years ended 2010 and 2009:

TABLE 2

Summary Changes in Net Assets As of June 30,			
	Governmental Activities		
	2010	2009	
Program revenues:			
Fees, fines and charges for services	\$ 2,501,591	\$ 2,759,001	
Operating grants and contributions	1,147,336	1,730,429	
Capital grants and contributions	996,710	2,096,384	
General revenues:			
Property taxes	2,831,414	2,020,141	
Municipal license taxes	781,073	728,807	
Sales and use taxes	1,027,550	1,104,267	
Grants and contributions not restricted to specific programs	3,811,390	4,356,187	
Interest	112,557	163,899	
Other	126,199	287,035	
Total revenues	13,335,820	15,246,150	
Expenses:			
General government	6,572,979	5,914,326	
Public works and sanitation	3,859,768	4,282,014	
Public safety	751,584	757,122	
Culture and recreation	1,030,345	895,322	
Health	390,541	384,432	
Welfare and community development	1,388,470	1,626,547	
Education	2,800	-	
Interest on long term debt	256,330	455,943	
Total expenses	14,252,817	14,315,706	
Change in net assets	(916,997)	930,444	
Net assets-beginning of year	11,887,409	10,956,965	
Net assets-end of year	\$ 10,970,412	\$ 11,887,409	

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

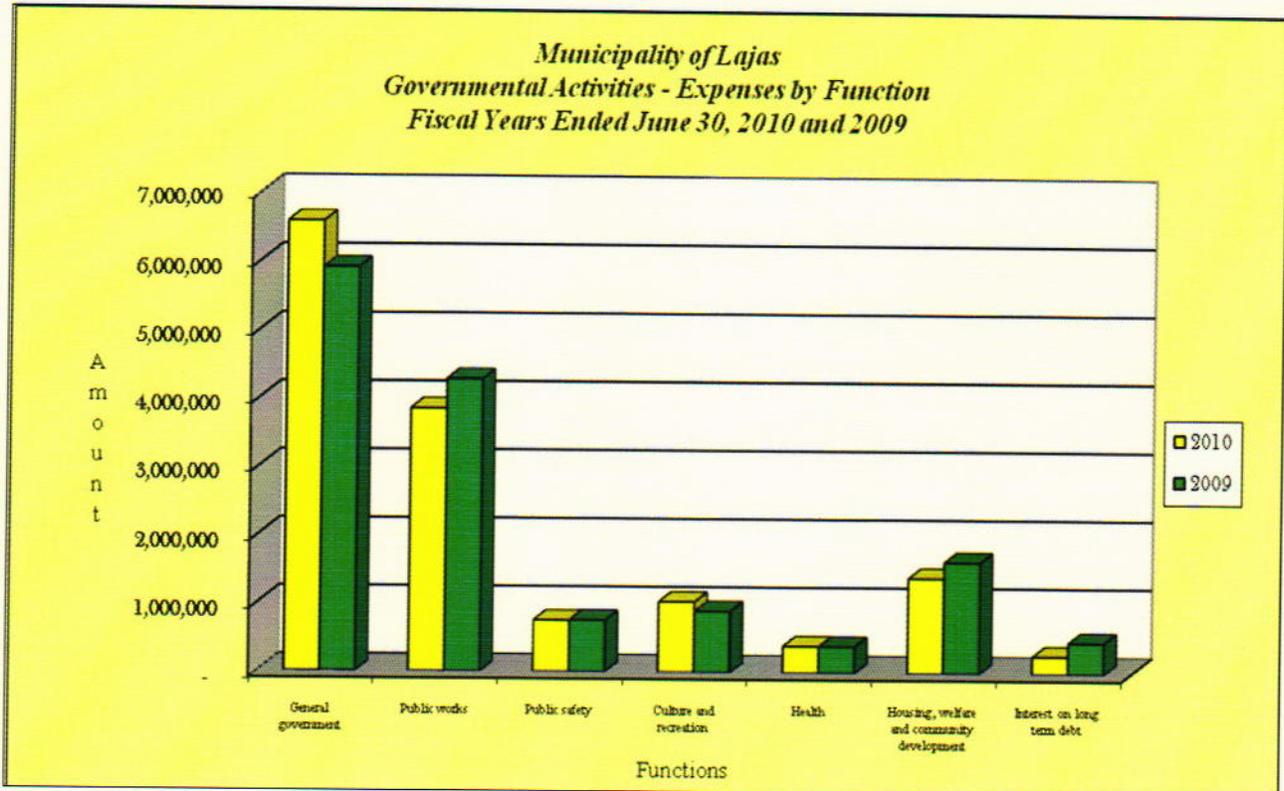
FIGURE 1



Approximately 29% of the Municipality's revenues came from unrestricted grants, 21% from property taxes, 19% from fees, fines and charges from services, and 16% from operating and capital grants. Revenues decreased by 13% in comparison with fiscal year 2009. The most significant changes are a 86% decrease in operating and capital grants, due mainly to non recurrent grant funds received on fiscal year 2009, some of which were used during current year and a 56% decrease in other revenues due to donated machinery, equipment and vehicles on fiscal year 2009. These decreases were partially offset by a 40% increase in property taxes revenues, due mainly to an increase in non-exonerated property tax.

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

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 46%, public works and sanitation with 27% and welfare and community development with 10%. Program revenues of the Municipality covered 33% of total expenses.

Total expenses decreased .4% in comparison with the previous year. This includes a 14% decrease in welfare and community development and 10% decrease in public works and sanitation expenses. In both cases the decreases were caused by a decrease in grants supporting these activities in the current year. There was also a 44% decrease in interest on long-term debt due to lower interest rates. These decreases were offset by an increase of 11% in general government expenses due to an increase in administrative costs.

As noted previously the minor decrease in expenses combined with the significant decrease in revenues resulted in a decrease in net assets of approximately 199% when compared with the net change in net assets reported in the fiscal year 2009 statement of activities.

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

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

Net Cost of Municipality's Governmental Activities				
Fiscal years ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General government	\$ 6,581,495	\$ 5,914,326	\$ (3,914,533)	\$ (2,896,306)
Public works and sanitation	3,851,252	4,282,014	(2,696,936)	(2,089,394)
Public safety	751,584	757,122	(715,831)	(663,755)
Culture and recreation	1,030,345	895,322	(1,023,049)	(835,912)
Health	390,541	384,432	(390,541)	(384,432)
Welfare and community development	1,391,270	1,626,547	(609,960)	(404,150)
Interest on long-term debt	256,330	455,943	(256,330)	(455,943)
	<u>\$ 14,252,817</u>	<u>\$ 14,315,706</u>	<u>\$ (9,607,180)</u>	<u>\$ (7,729,892)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2,501,591) and other governments and organizations that subsidized certain programs with grants and contributions (\$2,144,046). The \$(9,607,180) 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, 2010, the governmental funds reported ending fund balances of \$5,507,527, a net decrease of \$2,126,014 in comparison with the prior year. This decrease was caused primarily by decreases in the General Fund of \$1,543,410, in the Commonwealth Legislative Resolution fund of \$254,891, in the \$2,215,000-Loan Issuance Fund of \$289,376, a decrease of \$420,888 in the Permanent Capital Improvements Fund, and the use of Other Governmental Funds by \$66,323. These decreases were partially offset by increases of \$228,514 and \$220,360 from the Debt Service fund and the Community Development Block Grant Program Fund respectively. Of the total fund balances, \$2,439,583 constitutes an unreserved fund balance deficit. The remainder of the fund balances is reserved to indicate that it is not available for new spending.

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

The general fund is the operating fund of the Municipality. There was an unreserved fund deficit in the general fund for the amount of \$2,439,478. For the year ended June 30, 2010, the fund balance of the general fund decreased by \$1,543,410. Within this net change, there was a decrease of \$37,509 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 the decrease in the general fund are a decrease in fees, fines and charges for services revenues and in Commonwealth Government grants, offset partially by an increase in property tax revenues. There were also significant decreases within other financing sources.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2009-2010 presented an increase of 1% with respect to the prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2010 there were no increases in budgeted revenues or expenditures. Actual revenues do not reached budgeted revenues by \$731,818 (net). The most significant variances were a negative \$593,956 in fees, fines and charges for services, a negative \$286,041 in sales and use taxes revenues, and a negative \$100,831 in property taxes revenues. These variances were partially offset by a positive \$342,236 in intergovernmental revenues. The Municipality also reported a net negative variance of \$102,972 between revised budgeted appropriations and actual expenditures due to increased expenditures in the general government category. There was also a negative variance of \$209,570 in other financing sources (uses). Actual revenues were exceeded by actual expenditures by \$1,044,360.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$18,822,252 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of 6% over the prior year.

TABLE 4

Capital Assets, net As of June 30,		
	Governmental Activities	
	2010	2009
Non-depreciable assets:		
Land	\$ 1,570,654	\$ 1,570,654
Construction in progress	1,955,167	2,324,270
Depreciable assets:		
Land improvements	1,357,931	1,468,305
Buildings and buildings improvements	10,399,736	9,092,529
Infrastructure	1,465,620	1,074,451
Vehicles, machinery and equipment	2,073,144	2,227,240
Total	\$ 18,822,252	\$ 17,757,449

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

The Municipality's major capital projects that were still in construction as of June 30, 2010 are as follows:

- Improvements to the Municipal Cementery - \$905,581
- Construction of "Liche Lluch" basketball court - \$388,427
- Construction of bridge over "El Brujo" river - \$218,738
- Construction on Cartagena Lagoon boundaries - \$140,851

During the fiscal year 2009-2010 the Municipality finished some significant projects such as the construction of "Plaza-Mirador" San Pedro in La Parguera ward (\$827,809), the construction of the Piñalejos basketball court (\$266,093), and the remodeling of the old building of the Family Department (\$231,505). The Municipality also acquired a total of \$267,731 in vehicles and machinery and equipment during the fiscal year 2009-2010, including three vehicles for \$24,738, one truck for \$109,895, and security and rescue equipment for \$54,158.

The Municipality's fiscal year 2010-2011 capital budget calls for some minor projects including the conclusion of the projects described above still in construction at June 30, 2010 with an estimated remaining cost of over \$995,000. 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 conclusion of other municipal projects such as the Municipal Convention Center at an estimated total cost of \$115,000 and the conclusion of the Landfill Mitigation project at an estimated total cost of \$112,500. 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 \$9,494,000 in general and special bonds and notes, a decrease of 2% with respect to the prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2010 and 2009:

TABLE 5

Outstanding Long-term Debt		
Fiscal years ended June 30,		
	Governmental Activities	
	2010	2009
General and special obligation bonds and notes	\$ 9,494,000	\$ 9,733,000
Note payable to CRIM – Law No. 42	308,418	314,620
Note payable to CRIM – LIMS	45,238	73,259
Note payable to CRIM – financing of delinquent accounts	118,096	123,464
Capital Leases	57,702	51,862
Landfill closure and post-closure care costs	962,255	829,165
Compensated absences	2,506,151	2,442,276
Christmas bonus payable	263,456	242,337
Judgments and claims	-	1,000
P.R. Department of Treasury - property taxes	3,607	3,255
Payable to PREPA	355,975	182,909
Liabilities expected to be refinanced	-	364,040
Note payable to General Service Administration	284,881	284,881
Note payable to P.R. Department of Labor	200,646	-
Total	\$ 14,600,425	\$ 14,646,068

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

The Municipality reported a net increase in the other long-term debts of \$193,357. This increase was mostly affected by the net effect from the decrease of \$364,040 in the liabilities expected to be refinanced, with increases of \$200,646, \$173,066 and \$133,090 from the new debt from the note payable to P.R. Department of Labor, a 2010 note payable to the Puerto Rico Electric Power Authority, 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 establishing the fiscal year 2010-2011 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 16.9%, which compares with the Commonwealth rate of 16.6% at June, 2010.

For year 2010-2011 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$11,245,809 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 the 2010-2011 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 with 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, 2010**

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ -
Receivables, net:	
Fees and charges from services	35,039
Due from:	
Commonwealth Government (note C)	816,882
Federal Government (note C)	311,857
Restricted assets:	
Cash and cash equivalents	3,869,862
Cash with fiscal agent	4,929,576
Deferred bond issuance costs, net of accumulated amortization of \$59,953	29,576
Capital assets (note F):	
Land and construction in progress	3,525,821
Other capital assets, net	15,296,431
Total capital assets, net	<u>18,822,252</u>
Total assets	<u>\$ 28,815,044</u>
LIABILITIES	
Bank Overdraft	\$ 205,922
Accounts payable and accrued liabilities	1,568,306
Interest payable	120,978
Due to:	
Commonwealth Government (note C)	629,719
Deposits payable	
Deferred revenues:	
Municipal License taxes	707,738
Intergovernmental - Commonwealth agencies	2,195
Intergovernmental - Federal grants	9,349
Long term liabilities (note G):	
Due within one year	1,728,187
Due in more than one year	12,872,238
Total liabilities	<u>17,844,632</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,274,634
Restricted for:	
Debt service	1,610,748
Capital Projects	3,438,676
Other specified purposes	529,342
Unrestricted (deficit)	(8,882,988)
Total net assets	<u>\$ 10,970,412</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, 2010

Functions	Program Revenues			Net (expenses) revenues and changes in net assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 6,581,495	\$ 2,335,682	\$ 331,280	\$ (3,914,533)
Public works and sanitation	3,851,252	158,613	61,584	(2,696,936)
Public safety	751,584	-	35,753	(715,831)
Culture and recreation	1,030,345	7,296	-	(1,023,049)
Health	390,541	-	-	(390,541)
Welfare and community development	1,388,470	-	718,719	(607,160)
Education	2,800	-	-	(2,800)
Interest on long term debt	256,330	-	-	(256,330)
Total	\$ 14,252,817	\$ 2,501,591	\$ 1,147,336	\$ (9,607,180)

General revenues:

Taxes:	
Property taxes	2,831,414
Municipal license taxes	781,073
Sales and use taxes	1,027,550
Grants contributions not restricted to specific programs	3,811,390
Interest	112,557
Other	126,199
Total general revenues:	8,690,183
Change in net assets	(916,997)
Net assets - beginning	11,887,409
Net assets - ending	\$ 10,970,412

The accompanying notes are an integral part of this statement

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2010

	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	
Assets								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:								
Fees and charges from services	18,708	-	-	-	-	-	16,331	35,039
Due from:								
Commonwealth Government	575,230	-	45,333	-	-	-	196,319	816,862
Federal Government	-	-	-	310,448	-	-	1,409	311,857
Other funds (note D)	126,141	-	-	-	-	-	42,771	168,912
Advances to other funds	-	12,690	-	-	-	-	-	12,690
Restricted assets:								
Cash and cash equivalents	-	2,087,928	-	8,715	-	1,374,984	398,235	3,869,862
Cash with fiscal agent	11,247	-	1,692,350	-	1,773,877	-	1,452,102	4,929,576
Total assets	\$ 731,326	\$ 2,100,618	\$ 1,737,683	\$ 319,163	\$ 1,773,877	\$ 1,374,984	\$ 2,107,167	\$ 10,144,818
Liabilities and Fund Balances (deficit)								
Liabilities:								
Bank overdraft	\$ 205,922	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,922
Accounts payable and accrued liabilities	771,342	106,537	-	274,660	71,024	90,872	253,871	1,568,306
Matured bonds and interest payable	123,646	-	687,981	-	-	-	-	811,627
Due to:								
Commonwealth Government	629,719	-	-	-	-	-	-	629,719
Other funds	42,771	-	18,664	44,503	-	-	62,974	168,912
Advances from other funds	12,690	-	-	-	-	-	-	12,690
Deferred revenues (notes E and J):								
Municipal License taxes	707,738	-	-	-	-	-	-	707,738
Intergovernmental-Commonwealth Government	512,118	-	-	-	-	-	-	522,923
Intergovernmental-Federal grants	-	-	-	105	-	-	10,805	9,454
Total liabilities	3,005,946	106,537	706,645	319,268	71,024	90,872	336,999	4,637,291
Fund Balances (deficit):								
Reserved for:								
Encumbrances	156,411	-	-	-	-	-	-	156,411
Debt Service	-	-	1,031,038	-	-	-	-	1,031,038
Capital projects	-	1,981,391	-	-	1,702,853	1,284,112	1,262,126	6,230,482
Other specified purposes	8,447	-	-	-	-	-	508,042	516,489
Advances	-	12,690	-	-	-	-	-	12,690
Unreserved (deficit)	(2,439,478)	-	-	-	-	-	-	(2,439,478)
General fund	-	-	-	(105)	-	-	-	(105)
Capital project fund	-	1,994,081	1,031,038	(105)	-	-	-	2,994,019
Total fund balances (deficit)	(2,274,620)	1,994,081	1,031,038	(105)	1,702,853	1,284,112	1,770,168	5,507,527
Total liabilities and fund balances (deficit)	\$ 731,326	\$ 2,100,618	\$ 1,737,683	\$ 319,163	\$ 1,773,877	\$ 1,374,984	\$ 2,107,167	\$ 10,144,818

The accompanying notes are an integral part of this statement

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total fund balances- governmental funds		\$ 5,507,527
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:		18,822,252
Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:		
Deferred charges - bond issuance costs		29,576
Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds:		
Due from Commonwealth Government:		
Christmas bonus reimbursement	\$ 131,728	
Sales and use tax- General Fund	19,732	
P.R. Electric Power Authority (PREPA)	355,975	
Law No. 2 Grant	8,610	
Public Schools Improvements Office	4,683	520,728
Due from Federal Government:		
Federal grant - CDBG		105
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:		(25,684)
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	(8,889,000)	
Note payable to CRIM-Law No. 42	(308,418)	
Note payable to CRIM-LIMS	(45,238)	
Note payable to CRIM-financing of delinquent accounts	(118,096)	
Municipal landfill closure and post closure	(962,255)	
Payable to CRIM-excess of property tax advances	(3,607)	
Compensated absences	(2,506,151)	
Christmas Bonus	(263,456)	
Obligations under capital leases	(57,702)	
Note payable to P.R. General Services Administration	(184,179)	
Debt payable to P.R. Electric Power Authority (PREPA)	(355,975)	
Debt payable to P.R. Department of Labor	(190,015)	(13,884,092)
Net assets of governmental activities:		\$ 10,970,412

The accompanying notes are an integral part of this statement

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2010**

	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	
Revenues:								
Taxes:								
Property taxes (note I)	\$ 2,216,976	\$ -	\$ 673,607	\$ -	\$ -	\$ -	\$ -	\$ 2,890,583
Municipal license taxes (note J)	781,073	-	-	-	-	-	-	781,073
Sales and use taxes (note K)	683,154	-	324,664	-	-	-	-	1,007,818
Intergovernmental:								
Commonwealth Government (note L)	5,389,355	-	-	-	-	20,621	471,439	5,881,415
Federal Government	520,307	-	-	1,089,538	-	-	987,067	2,076,605
Fees, fines and charges for services	58,226	153	1,143	-	-	-	7,296	527,603
Interest	54,245	-	-	-	30,552	-	22,483	112,557
Other	-	-	-	-	-	-	63,462	117,707
Total revenues	9,703,336	153	999,414	1,089,538	30,552	20,621	1,551,747	13,395,361
Expenditures:								
Current:								
General government	5,621,120	-	-	94,798	-	-	190,228	5,906,146
Public works and sanitation	3,097,651	2,549	-	282,319	73,937	2,375	140,379	3,599,210
Public Safety	672,645	-	-	-	-	-	2,128	674,773
Culture and recreation	898,860	-	-	-	-	-	17,131	915,991
Health	359,472	-	-	-	-	-	-	359,472
Welfare and community development	396,493	-	-	62,581	-	-	750,960	1,210,044
Education	2,800	-	-	-	-	-	-	2,800
Capital outlays	50,644	252,495	-	429,470	215,439	439,134	494,795	1,881,977
Debt Service:								
Principal	-	-	664,000	-	-	-	-	664,000
Interest	-	-	223,326	-	-	-	-	223,326
Bond issuance costs	867	-	-	-	-	-	-	867
Total expenditures	11,100,552	255,044	887,326	869,178	289,376	441,509	1,595,621	15,438,606
Excess (deficiency) of revenues over expenditures	(1,397,216)	(254,891)	112,088	220,360	(258,824)	(420,888)	(43,874)	(2,043,245)
Other financing sources (uses):								
General obligation bond issuance	370,000	-	-	-	-	-	-	370,000
Capital lease issuance	16,154	-	-	-	-	-	-	16,154
Note payable issuance	209,633	-	-	-	-	-	-	209,633
Discount on note payable	(8,987)	-	-	-	-	-	-	(8,987)
Payment of long-term debt - PREPA	(305,529)	-	-	-	-	-	-	(305,529)
Payment of long-term debt - compensated absences	(364,040)	-	-	-	-	-	-	(364,040)
Transfers in	54,387	-	117,033	-	-	-	-	170,556
Transfers (out)	(117,812)	-	(607)	-	(30,552)	-	(864)	(170,556)
Total other financing resources (uses)	(146,194)	-	116,426	-	(30,552)	-	(22,449)	(82,769)
Net change in fund balances (deficit)	(1,543,410)	(254,891)	228,514	220,360	(289,376)	(420,888)	(66,323)	(2,126,014)
Fund balances (deficit) at beginning of year	(731,210)	2,248,972	802,524	(220,465)	1,992,229	1,705,000	1,836,491	7,633,541
Fund balances (deficit) at end of year	\$(2,274,620)	\$ 1,994,081	\$ 1,031,038	\$ (105)	\$ 1,702,853	\$ 1,284,112	\$ 1,770,168	\$ 5,507,527

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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 (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances (deficit) - total governmental funds: \$ (2,126,014)

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	\$ 1,881,977	
Less: current year depreciation	<u>(825,667)</u>	1,056,310

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	867	
Amortization of bond issuance costs	<u>(7,211)</u>	(6,344)

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

Christmas bonus reimbursement	131,728	
Sales and use tax-General Fund	19,732	
P.R. Electric Power Authority (PREPA)	319,063	
Federal Grant - CDBG	105	
Law no. 2 Grant	8,610	
School Improvements Office	4,683	
Donated Capital Assets	<u>8,492</u>	492,413

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

Christmas bonus reimbursement-prior year	(121,169)	
Property Taxes-General Fund	(59,169)	
Federal Grant - CDBG	(225,619)	
P.R. Electric Power Authority (PREPA)	<u>(145,997)</u>	(551,954)

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

(586,800)

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

Matured bonds principal payments (net change)		55,000
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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	609,000	
Other long-term liabilities	<u>1,141,564</u>	1,750,564

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:

Compensated absences	(131,295)	
Christmas bonus	(263,456)	
Debt payment to P.R. Electric Power Authority	(478,595)	
Prior Year Property Taxes	(352)	
Municipal Landfill	(133,090)	
Accrued interest payable (net change) and others	<u>6,616</u>	<u>(1,000,172)</u>

Change in net assets of governmental activities: \$ (916,997)

The accompanying notes are an integral part of this statement

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the **Municipality of 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, 2010**

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 the Management's 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's Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the 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, 2010**

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'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 non-exchange 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, 2010**

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 (for Community Development Block Grant Program Fund).

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 revenue 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 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 in the governmental fund financial statements deferred revenues which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (In 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 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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included). Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Notes to Financial Statements

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

Required Supplementary Information

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

2. *Deposits and investments*

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

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank for Puerto Rico ("GDB").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Restricted assets*

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

5. *Interfund receivables and payables*

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances among funds are reported as "due from/to other funds".

6. *Inventories*

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

7. *Capital assets*

Capital assets reported in the governmental activities in the Statements of Net Assets include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$500 or more and have a useful life of one or more years. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. 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.

8. Long-term obligations

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

9. Deferred bond issuance costs

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

10. Compensated absences

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

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

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

11. Fund balances and Net Assets

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

- | | |
|---------------------------|---|
| Encumbrances: | Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received. |
| Debt Service: | Represent net assets available to finance future debt service payments. |
| Capital Projects: | Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed. |
| Other specified purposes: | Represent amounts to be used for future expenditures of Federal and Commonwealth's grants 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 assigned by Management for future spending to finance operational costs which are not legally segregated.

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

- | | |
|--|---|
| Invested in capital assets, net of related debt: | Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs. |
|--|---|

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted net assets:	Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

12. Interfund transactions

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

13. Risk financing

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of 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.

14. Use of estimates

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

15. Future adoption of accounting pronouncements

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2010 follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 355,975	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	131,728	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	82,844	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	13,161	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	32,172	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	310,448
<u>Other governmental funds:</u>		
P.R. Infrastructure Financing Authority (PRIFA) – “PINI” Funds	108,157	-
P.R. Department of Labor – Law 9 Special Communities	52,943 26,609	- -
P.R. Traffic Safety Commission	-	1,409
Others	13,293	-
	<u>\$ 816,882</u>	<u>\$ 311,857</u>

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, 2010 follows:

	<u>Commonwealth Government</u>
General Services Administration	\$ 304,046
P.R. Employees Retirement System (special laws and current debt)	262,820
P.R. Aqueduct and Sewer Authority (PRASA)	53,447
P.R. Department of Treasury	9,406
	<u>\$ 629,719</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds:

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

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
<u>General Fund</u>	<u>Major Fund:</u>	
	CDBG	\$ 44,503
	Debt Service	18,664
	<u>Other Governmental Funds:</u>	
	Child Care	10,031
	Law 9	52,943
<u>Other Governmental Funds:</u>	<u>Major Fund:</u>	
Section 8	General Fund	42,771
		<u>\$ 168,912</u>

2. Transfers in (out):

Transfers among individual funds were made for operational purposes. Transfers include: (1) interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund, (2) interest in Commonwealth Legislature Resolutions fund 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 - Intergovernmental Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources received before allowable expenditures are incurred or resources not available as required by current standards. A detail of these balances follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 355,975	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	131,728	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	19,732	-
Public Schools Improvements Office	4,683	-
<u>Major fund - CDBG:</u>		
Office of Commissioner of Municipal Affairs - CDBG	-	105
<u>Other governmental funds:</u>		
Law No. 2	8,610	-
Federal Transit Administration (FTA)	-	9,213
Others	2,195	136
	<u>\$ 522,923</u>	<u>\$ 9,454</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE F - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2010 is as follows:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 1,570,654	\$ -	\$ -	\$ 1,570,654
Construction in progress	2,324,270	1,146,135	1,515,238	1,955,167
Total capital assets not being depreciated:	3,894,924	1,146,135	1,515,238	3,525,821
Capital assets, being depreciated:				
Land improvements	3,800,899	-	-	3,800,899
Buildings and building improvements	11,049,182	1,527,767	-	12,576,949
Infrastructure	30,554,456	464,075	-	31,018,531
Vehicles, machinery and equipment	5,798,724	267,731	82,800	5,983,655
Total capital assets being depreciated	51,203,261	2,259,573	82,800	53,380,034
Less accumulated depreciation for:				
Land improvements	2,332,594	110,374	-	2,442,968
Buildings and building improvements	1,956,653	220,560	-	2,177,213
Infrastructure	29,480,005	72,906	-	29,552,911
Vehicles, machinery and equipment	3,571,484	421,827	82,800	3,910,511
Total accumulated depreciation	37,340,736	825,667	82,800	38,083,603
Total capital assets being depreciated, net	13,862,525	1,433,906	-	15,296,431
Governmental activities capital assets, net	<u>\$ 17,757,449</u>	<u>\$ 2,580,041</u>	<u>\$ 1,515,238</u>	<u>\$ 18,822,252</u>

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

Governmental activities:

General government	\$ 205,352
Public works and sanitation	219,656
Public safety	76,811
Culture and recreation	114,353
Welfare and community development	178,426
Health	31,069
Total depreciation expense, governmental activities	<u>\$ 825,667</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010:

	Balance at July 1, 2009	Increases	Decreases	Balance at June 30, 2010	Due within one year
General, Special Obligation Bonds and Notes	\$ 9,733,000	\$ 370,000	\$ 609,000	\$ 9,494,000	\$ 666,000
Note payable to CR IM- Law No. 42	314,620	-	6,202	308,418	6,592
Note payable to CR IM- LIMS	73,259	-	28,021	45,238	29,714
Note payable to CR IM- financing of delinquent accounts	123,464	-	5,368	118,096	5,368
Capital Leases	51,862	16,154	10,314	57,702	23,038
Landfill closure and post- closure care costs	829,165	133,090	-	962,255	-
Compensated absences	2,442,276	131,295	67,420	2,506,151	267,472
Christmas Bonus	242,337	263,456	242,337	263,456	263,456
Judgments and claims	1,000	-	1,000	-	-
Note Payable to CRIM- Property Taxes	3,255	352	-	3,607	3,255
Payable to PREPA	182,909	478,595	305,529	355,975	196,444
Liabilities expected to be refinanced	364,040	-	364,040	-	-
Note payable to General Service Administration	284,881	-	-	284,881	190,890
Note payable to P.R. Department of Labor	-	200,646	-	200,646	75,958
	<u>\$ 14,646,068</u>	<u>\$ 1,593,588</u>	<u>\$ 1,639,231</u>	<u>\$ 14,600,425</u>	<u>\$ 1,728,187</u>

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2010 amount to \$9,494,000. 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 sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010 follows:

	Outstanding Amount
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% (6.30% at June 30, 2010)	\$ 150,000
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 4.50%	588,000
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% (4.30% at June 30, 2010)	575,000
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%	478,000
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 1.53% to 6.62% (1.53% at June 30, 2010)	355,000
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 1.53% to 6.62% (1.53% at June 30, 2010)	370,000
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 1.53% to 6.62% (1.53% at June 30, 2010)	750,000
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 1.53% to 6.62% (1.53% at June 30, 2010)	1,875,000
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, 2010)	58,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE G - LONG-TERM DEBT - Continued

	Outstanding Amount
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 1.53% to 7.50% (1.53% at June 30, 2010)	225,000
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 1.53% to 7.50% (1.53% at June 30, 2010)	880,000
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 1.53% to 7.50% (1.53% at June 30, 2010)	2,185,000
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 1.53% to 7.25% (1.53% at June 30, 2010)	410,000
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 1.53% to 7.50% (1.53% at June 30, 2010)	225,000
2008 general obligation bonds of \$370,000 due in annual installments of \$15,000 to \$40,000 through July 1, 2025; bearing interest at rates ranging from 4.75% to 5.75% (4.75% at June 30, 2010)	370,000
	\$ 9,494,000

The debt services requirement to amortize general and special obligation bonds and notes as of June 30, 2010 follows:

June 30,	Principal	Interest
2011	\$ 666,000	\$ 435,726
2012	708,000	519,255
2013	756,000	469,728
2014	810,000	416,299
2015	988,000	362,940
2016-2020	2,016,000	1,416,982
2021-2025	1,371,000	924,985
2026-2030	1,495,000	456,747
2031-2035	684,000	41,715
Totals	\$ 9,494,000	\$ 5,044,377

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 owe 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 sent 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:

\$ 308,418

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 6,592	\$ 18,983
2012	7,006	18,569
2013	7,447	18,128
2014	7,915	17,661
2015	8,412	17,163
2016-2020	50,684	77,195
2021-2025	68,736	59,159
2026-2030	93,220	35,455
2031-2032	58,406	5,531
Totals	\$ 308,418	\$ 267,844

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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. The amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM. Debt service requirements in future years are as follows:

45,238

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 29,713	\$ 2,109
2012	15,525	385
Totals	\$ 45,238	\$ 2,494

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE G - LONG-TERM DEBT - Continued

Outstanding
Amount

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 non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the five-year period the loan outstanding balance of \$134,200 was restructured for a twenty-five years period. Debt service requirements in future years are as follows:

118,096

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 5,368	\$ 7,346
2012	5,368	7,012
2013	5,368	6,678
2014	5,368	6,344
2015	5,368	6,010
2016-2020	26,840	25,042
2021-2025	26,840	16,695
2026-2030	26,840	8,347
2031-2032	10,736	1,002
Totals	\$ 118,096	\$ 84,476

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE G - LONG-TERM DEBT - Continued

	<u>Outstanding Amount</u>														
<p>Obligation under capital lease – The Municipality is obligated under three capital lease agreements with third parties that expire on September 1, 2010, June 1, 2013 and June 30, 2014. As of June 30, 2010 the capitalized cost of capital leased equipment (photocopiers) amount to \$91,050 and are being paid in monthly installments of \$1,684, including interest at 5.00%, 3.693% and 5.02%. The present value of future minimum lease payments of the lease agreements as of June 30, 2010 follows:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Year ending June 30,</th> <th style="text-align: center; border-bottom: 1px solid black;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2011</td> <td style="text-align: right;">\$ 24,059</td> </tr> <tr> <td style="text-align: center;">2012</td> <td style="text-align: right;">16,380</td> </tr> <tr> <td style="text-align: center;">2013</td> <td style="text-align: right;">16,380</td> </tr> <tr> <td style="text-align: center;">2014</td> <td style="text-align: right;">3,660</td> </tr> <tr> <td style="text-align: center;">Less: Amount representing interest</td> <td style="text-align: right; border-top: 1px solid black;">(2,777)</td> </tr> <tr> <td style="text-align: center;">Present value of minimum lease payments</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 57,702</td> </tr> </tbody> </table>	Year ending June 30,	Amount	2011	\$ 24,059	2012	16,380	2013	16,380	2014	3,660	Less: Amount representing interest	(2,777)	Present value of minimum lease payments	\$ 57,702	57,702
Year ending June 30,	Amount														
2011	\$ 24,059														
2012	16,380														
2013	16,380														
2014	3,660														
Less: Amount representing interest	(2,777)														
Present value of minimum lease payments	\$ 57,702														
<p>Landfill obligation - represent the outstanding balance of the estimated liability for landfill closure and post-closure care costs, based on 55% usage of the landfill. The total estimate for these costs amounts to \$1,753,700 as of June 30, 2010.</p>	962,255														
<p>Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. The amount is paid with unrestricted funds</p>	2,506,151														
<p>Christmas Bonus - represent the accrued portion corresponding to fiscal year 2010 of the Christmas bonus to be paid in December 2010.</p>	263,456														
<p>Payable to CRIM, property tax advances - represent amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2010. (See related note I)</p>	3,607														

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE G - LONG-TERM DEBT - Continued

Outstanding
Amount

Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2008-2009 the Municipality's annual energy charges amounts to \$1,203,399 but the CELI obligation amounted to \$724,804. The excess amount of \$478,595 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2010 the outstanding amount of \$355,975 includes a balance of \$36,913 from fiscal year 2008 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:

355,975

<u>June 30</u>	<u>Principal</u>
2011	\$ 196,445
2012	159,530
Totals	<u>\$ 355,975</u>

Outstanding
Amount

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

**COMMONWEALTH OF PUERO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE G - LONG-TERM DEBT – Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 190,890	\$ 17,110
2012	93,991	2,081
Totals	<u>\$ 284,881</u>	<u>\$ 19,191</u>

Outstanding
Amount

Note payable to P. R. Department of Labor – On March 31, 2010 the Municipality entered into a financing agreement with the Puerto Rico Department of Labor for unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality. This agreement is in the form of a non-interest bearing note (imputed interest of 2.88%) due on April, 2013 and was recorded at its present value of \$200,646 net of an unamortized discount of \$8,987. The note is payable in monthly installments of \$5,823 and is being paid from unrestricted funds. Debt service requirements in future years are as follows:

200,646

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 75,958	\$ 5,566
2012	67,207	2,671
2013	57,481	751
Totals	<u>\$ 200,646</u>	<u>\$ 8,988</u>

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 \$962,255 as of June 30, 2010, which is based on a 55% usage of the landfill. It is estimated that an additional \$791,445 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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE H - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS
Continued

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, 2010. 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, 2010, 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, 2010 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	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%)
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE I - PROPERTY TAXES - Continued

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 \$3,607 resulting from the final settlement 2008-2009 and preliminary settlement 2009-2010 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, 2010, 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 \$707,738 is recorded as deferred revenues.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE K - SALES AND USE TAXES – Continued

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 1% of 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 to 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. The tax is due the 10th day of each month based on the tax collected in the preceding month. A total \$39,117 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 10, net of uncollectible accounts (1%); \$43,727 and \$32,172 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.

NOTE L - INTERGOVERNMENTAL REVENUES

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

	<u>Amount</u>
Amount of municipal equalization fund and subsidy sent by CRIM	\$ 3,495,282
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,530,493
Reimbursement from Commonwealth Government – Christmas Bonus expenditures	160,797
Puerto Rico Department of Labor – Law No.52	189,429
Puerto Rico Department of Labor – Law No.82	13,354
	<u>\$ 5,389,355</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE M - RETIREMENT PLAN - Continued

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:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2010	<u>\$ 162,125</u>	<u>\$ 230,294</u>
2009	<u>\$ 192,243</u>	<u>\$ 214,029</u>

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 2010, costs related to these post employment benefits amounted to \$91,456. These benefits are recorded as expenditures in the general fund.

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 to \$201,540. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

2. Construction

As of June 30, 2010, the Municipality has commitments of \$994,552 for design, construction, improvements or renovation of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 that the expenditures 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. 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 DEFICITS

The CDBG Program fund (major fund) and Law 2 fund (other governmental funds) disclosed fund balance deficits of \$105 and \$8,610, respectively, 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.

NOTE R - SUBSEQUENT EVENT

On September 7, 2010 the Governmental Development Bank of Puerto Rico (GDB) approved a 7 year \$265,000 general obligation bond (GOB) to finance the payment of liabilities to suppliers. The GOB, which will be repaid from sales and use tax collections of debt service fund (Municipal Redemption Fund) will bear interest at variable rates (Prime + 1.50%).

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
Property taxes	\$ 2,317,807	\$ 2,317,807	\$ 2,216,976	\$ (100,831)
Municipal license taxes	827,018	827,018	781,073	(45,945)
Sales and use taxes	996,000	996,000	709,959	(286,041)
Intergovernmental	4,538,807	4,538,807	4,881,043	342,236
Fees, fines and charges for services	1,395,609	1,395,609	801,653	(593,956)
Interest	168,360	168,360	111,834	(56,526)
Other	45,000	45,000	54,245	9,245
Total revenues	10,288,601	10,288,601	9,556,783	(731,818)
<u>EXPENDITURES:</u>				
Current:				
General government	5,121,776	5,097,405	5,320,492	(223,087)
Public works and sanitation	3,000,417	3,091,157	2,981,277	109,880
Public safety	684,074	680,807	672,539	8,268
Culture and recreation	920,742	905,076	903,550	1,526
Health	359,472	359,472	359,472	-
Welfare and community development	444,370	396,934	396,493	441
Total expenditures	10,530,851	10,530,851	10,633,823	(102,972)
Excess (deficiency) of revenues over expenditures	(242,250)	(242,250)	(1,077,040)	(834,790)
<u>Other financing sources (uses):</u>				
Transfers in	396,000	396,000	149,713	(246,287)
Transfers out	(153,750)	(153,750)	(117,033)	36,717
Total other financing sources (uses)	242,250	242,250	32,680	(209,570)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	\$ -	\$ -	\$ (1,044,360)	\$ (1,044,360)

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, 2010**

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 1991, 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 the 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, 2010

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses) (budgetary basis):	\$(1,044,360)
Budget to GAAP differences:	
Entity differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes:	231,071
Non-budgeted funds recorded as expenditures for financial reporting:	(246,252)
Non-budgeted transfers out:	(178,001)
Non-budgeted other financing sources (uses):	155,673
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	640,645
Revenues recorded in budgetary basis purposes but not in financial reporting:	(417,480)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	16,227
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(764,064)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	95,399
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(32,268)
Net change in fund balance (deficit) (GAAP basis):	<u><u>\$(1,543,410)</u></u>

SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2010**

Line Item No.	Description	14.871 Housing Choice Vouchers
Balance Sheet		
111	Cash - unrestricted	\$ -
113	Cash - other restricted	\$ 54,006
100	Total cash	\$ 54,006
121	Accounts receivable - PHA projects	\$ 16,331
122	Accounts receivable - HUD other projects	\$ -
125	Accounts receivable - miscellaneous	\$ -
126.2	Allowance for doubtful accounts - other	\$ -
128	Fraud recovery	\$ -
128.1	Allowance for doubtful accounts - fraud	\$ -
120	Total receivables, net of allowance for doubtful accounts	\$ 16,331
144	Inter program - due from	\$ 42,771
150	Total Current Assets	\$ 113,108
164	Furniture, equipment and machinery - administration	\$ 9,315
166	Accumulated depreciation	\$ (3,835)
160	Total capital assets, net of accumulated depreciation	\$ 5,480
180	Total Non-current Assets	\$ 5,480
190	Total Assets	\$ 118,588
312	Accounts payable <= 90 days	\$ -
313	Accounts payable > 90 days past due	\$ -
321	Accrued wage/payroll taxes payable	\$ -
322	Accrued compensated absences - current portion	\$ 6,420
331 - 030	Accounts payable - HUD PHA programs - Other	\$ -
332	Accounts Payable - PHA Projects	\$ 13,272
333	Accounts payable - other government	\$ -
341	Tenant security deposits	\$ -
342	Deferred revenue	\$ -
345	Other current liabilities	\$ 1,143
347	Inter-program - due to	\$ -
348	Loan Liability - current	\$ -
310	Total Current Liabilities	\$ 20,835
353	Non-current liabilities - other	\$ 5,494
354	Accrued compensated absences - non current	\$ 2,330
350	Total Non-current Liabilities	\$ 7,824
300	Total Liabilities	\$ 28,659
508.1	Invested in Capital Assets, Net of Related Debt	\$ 5,480
511.1	Restricted Net Assets	\$ 79,139
512.1	Unrestricted Net Assets	\$ 5,310
513	Total Equity/Net Assets	\$ 89,929
600	Total Liabilities and Equity/Net Assets	\$ 118,588

Continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2010**

Line Item No.	Description	14.871 Housing Choice Vouchers
Income Statement		
70600-010	Housing assistance payments	\$ 266,862
70600-020	Ongoing administrative fees earned	\$ 44,121
70600-070	Admin fee calculation description	
70600	HUD PHA operating grants	\$ 310,983
71100-010	Housing Assistance Payment	\$ -
71100-020	Administrative Fee	\$ -
71100	Investment income - unrestricted	\$ -
71400-010	Housing Assistance Payment	\$ -
71400-020	Administrative Fee	\$ -
71400	Fraud recovery	\$ -
71500	Other revenue	\$ 63,462
71600	Gain or loss on the sale of capital assets	\$ -
72000-010	Housing Assistance Payment	\$ 34
72000-020	Administrative Fee	\$ -
72000	Investment income - restricted	\$ 34
700	Total Revenue	\$ 374,479
91100	Administrative salaries	\$ 45,031
91200	Auditing fees	\$ -
91500	Employee benefit contributions- administrative	\$ 13,281
91600	Office expenses	\$ 5,866
91000	Total Operating - Administrative	\$ 64,178
96200	Other general expenses	\$ 604
96210	Compensated absences	\$ -
96600	Bad debt - other	\$ -
96000	Total Other General Expenses	\$ 604
96900	Total Operating Expenses	\$ 64,782
97000	Excess Revenue Over Operating Expenses	\$ 309,697
977300-020	Home-Ownership	\$ -
97300-050	All Other	\$ 259,929
97300	Housing assistance payments	\$ 259,929
97350	HAP Portability-in	\$ 17,941
97400	Depreciation expense	\$ 1,863
97500	Fraud losses	\$ -
900	Total Expenses	\$ 344,515
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 29,964

Continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2010**

Line Item No.	Description	14,871 Housing Choice Vouchers
11030	Beginning equity	\$ 59,965
11040-010	Prior period adjustments and correction of errors - Editable	\$ -
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -
11770-001	Administrative Fee Equity - Beginning Balance	\$ (12,207)
11170-010	Administrative Fee Revenue	\$ 44,121
11170-020	Hard to House Fee Revenue	\$ -
11170-021	FSS Coordinator Grant	\$ -
11170-030	Audit Costs	\$ -
11170-040	Investment Income	\$ -
11170-045	Fraud Recovery Revenue	\$ -
11170-050	Other Revenue	\$ 63,462
		This amount received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 09-10 (\$17,941) plus excess administrative costs over administrative fee to be reimbursed by the general fund of the Municipality (\$42,771).
11170-051	Comment For Other Revenue	
11170-060	Total Admin Fee Revenues	\$ 107,583
11170-080	Total Operating Expenses	\$ 64,782
11170-090	Depreciation	\$ 1,863
11170-095	Housing Assistance Portability-In	\$ 17,941
11170-100	Other Expenses	\$ -
11170-101	Comment For Other Expense	
11170-110	Total Expenses	\$ 84,586
11170-002	Net Administrative Fee	\$ 22,997
11170-003	Administrative Fee Equity - Ending Balance	\$ 10,790
11170	Administrative Fee Equity	\$ 10,790
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 72,172
11180-010	Housing Assistance Payments Revenues	\$ 266,862
11180-015	Fraud Recovery Revenue	\$ -
11180-020	Other Revenue	\$ -
11180-021	Comment For Other Revenue	
11180-025	Investment Income	\$ 34
11180-030	Total HAP Revenues	\$ 266,896
11180-080	Housing Assistance Payments	\$ 259,929
11180-090	Other Expenses	\$ -
11180-091	Comment For Other Expense	
11180-100	Total Housing Assistance Payments Expenses	\$ 259,929
11180-002	Net Housing Assistance Payments	\$ 6,967
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 79,139
11180	Housing Assistance Payments Equity	\$ 79,139
11190-210	Total ACC HCV Units	828
11190-220	Unfunded Units	-
11190-230	Other Adjustments	-
11190	Unit Months Available	828
11210	Unit Months Leased	762

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS**

**NOTE TO SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE
June 30, 2010**

NOTE A – BASIS OF PRESENTATION

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

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

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

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note B)	Federal Expenditures (notes A and B)
<u>U.S. Department of Housing and Urban Development</u>			
Direct program:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	310,983
Passed-through program from:			
Office of Commissioner of Municipal Affairs: Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.228	FD-53, AB-53	869,178
<u>P.R. Department of Family:</u>			
ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	NAV	8,579
Subtotal U.S. Department of Housing and Urban Development			<u>1,188,740</u>
<u>U.S. Department of the Interior</u>			
Direct program:			
State Wildlife Grants	15.634	N/A	39,649
<u>U.S. Department of Transportation</u>			
Passed-through program from:			
<u>P.R. Traffic Safety Commission:</u> State and Community Highway Safety	20.600	10-06-43	1,409
<u>U.S. Department of Health and Human Services</u>			
Passed-through programs from:			
P.R. Department of Family - Families and Children Administration: CCDF Cluster:			
Child Care and Development Block Grant	93.575	CCA 11	297,770
ARRA - Child Care and Development Block Grant	93.713	241-2010-000280	5,184
Total CCDF Cluster:			<u>302,954</u>
Subtotal U.S. Department of Health and Human Services:			<u>302,954</u>
<u>U.S. Department of Homeland Security</u>			
Passed-through programs from:			
<u>P.R. Governor's Office - Governor's Authorized Representative (GAR):</u> Disaster Grants - Public Assistance	97.036	125-99-125	112,413
P.R. Governor's Office - Office of Public Safety Affairs: Homeland Security Grant Program (HSGP)	97.067	2005-GE-T5-4009	57,660
Subtotal U.S. Department of Health and Human Services:			<u>170,073</u>
Total Expenditures of Federal Awards			<u>\$ 1,702,825</u>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2010**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Description	Community Development Block Grant Fund	Other Governmental Funds
14.228	\$ 869,178	\$ -
14.871	-	310,983
ARRA - 14.262	-	8,579
15.634	-	39,649
20.600	-	1,409
93.575	-	297,770
ARRA - 93.713	-	5,184
97.036	-	112,413
97.067	-	57,660
Total federal awards expenditures:	869,178	833,647
Adjustment for Section 8 HCV	-	(33,113)
Total non-federal awards expenditures:	-	795,087
Total expenditures, fund statements:	\$ 869,178	\$ 1,595,621

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

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

We have audited the 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, 2010, which collectively comprise the Municipality of Lajas, Puerto Rico's basic financial statements and have issued our report thereon dated February 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

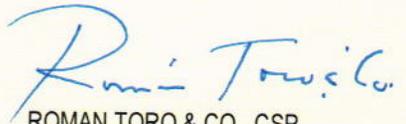
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Lajas, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as items 2010-III-1 through 2010-III-4.

The Municipality of Lajas, Puerto Rico was unable to provide comments to the findings identified in our audit as described in the accompanying schedule of findings and questioned costs within a reasonable period of time, and have informed us that they will submit comments and corrective action descriptions at a date subsequent to the issuance of this report.

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


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

Yauco, Puerto Rico
February 11, 2011

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the original of this report

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

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

Compliance

We have audited the compliance of **Municipality of Lajas, Puerto Rico** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Municipality of Lajas, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Lajas, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Lajas, Puerto Rico's compliance based on our audit.

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

In our opinion, the Municipality of Lajas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questions costs as items 2010-III-1 through 2010-III-4.

Internal Control Over Compliance

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

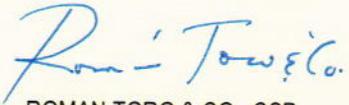
Internal Control Over Compliance, continued

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-III-1 through 2010-III-4. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to those charged with governance.

The Municipality of Lajas, Puerto Rico was unable to provide comments to the findings identified in our audit as described in the accompanying schedule of findings and questioned costs within a reasonable period of time, and have informed us that they will submit comments and corrective action descriptions at a date subsequent to the issuance of this report.

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


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

Yauco, Puerto Rico
February 11, 2011

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the original of this report

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Significant control deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Significant control deficiency identified? Yes None reported
- Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant – State Grant
14.871	Section 8 Housing Choice Vouchers
93.575	Child Care and Development Block Grant
93.713	ARRA Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENTS FINDINGS

None.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-III-1

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Community Development Block Grant – State Grant (CFDA 14.228)

Compliance Requirements: Reporting.

Prior-Year(s) Audit Finding(s): 01-09.

Questioned Costs: None.

Condition:

The Municipality did not submit certain reports and did not include necessary financial data within submitted reports required for the CDBG program. This is a repeat finding from prior years.

Context:

The following reports required by the CDBG program were not prepared or submitted to the awarding agency, the Commissioner's Office for Municipal Affairs (OCAM):

1. *Relación de Gastos e Ingresos* (the 3rd quarter of 2009 and the 1st quarter of 2010).
2. Program Income Report to be submitted quarterly and the estimated program income report that is due on July 31 of each year.
3. Section 3 summary report.

Even though the performance and evaluation report for program year 2009 was prepared there was no evidence that the same had been submitted to OCAM. The reports for the other open program years, which are from 2005 thru 2008, were not prepared as reported in prior year single audit reports.

Criteria:

According to 24 CFR, section 91.520 (a) and (c), the Performance and Evaluation report is due 90 days after the close of its program year, and should include a description of the use of funds during the program year and an assessment of the grantee's use for the priorities and objectives identified in its plan. HUD 60002 Section 3 summary report is required for each grant over \$200,000 that involves housing rehabilitation, housing construction or other public construction, according to 24 CFR sections 135.3 (a), 135.90 and 570.487 (d).

The program is required by OCAM to report any and all program income generated by the program after every three month period, as per OCAM Circular Letter 2008-11 of March 25, 2008.

Cause:

The Municipality did not thoroughly review the HUD and OCAM guidelines regarding the requirements of submission of reports.

Effect:

The Municipality did not report required information to the awarding agency.

Auditor's Recommendation:

The Municipality should deliver instructions to its staff regarding these HUD and OCAM guidelines, and to constantly review authoritative guidance in order to assure that all required reports are prepared and timely submitted.

Views of responsible officials and corrective actions:

Management was unable to provide comments within a reasonable period of time, and will submit comments and corrective action descriptions shortly after the issuance of the auditor's report.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-2

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Community Development Block Grant – State Grant (CFDA 14.228) and
Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Equipment and Real Property Management (E)

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: Not determined

Condition:

The Municipality does not maintain an adequate inventory of federally-funded equipment, because equipment purchased with CDBG and Section 8 programs funds were not identified separately from each other. Additionally, the Municipality did not perform the required inventory of either program's equipment within the 1-year timeframe required by State's policies and procedures as prescribed by the PR Commissioner's Office for Municipal Affairs.

Context:

During our audit, we inquired about the Municipality's annual equipment inventory process, as required by state regulations. We found that the Municipality had performed an annual inventory on all departments and offices, but could not provide evidence that it was performed to the federal programs office which administers Section 8 and CDBG programs. Additionally, the subsidiary ledger maintained by the Municipality had identified all equipment in those offices by as part of the office, and not to a particular program.

Criteria:

PR Commissioner's Office for Municipal Affairs Municipal Administration Manual requires that the Municipality perform an annual inventory of all property and equipment in the custody and ownership of the Municipality, including its federal programs (Ch. VII, sec. 23).

Cause:

The Municipality did not apply federal and state policies and procedures regarding inventories because of a misunderstanding of overlapping regulations.

Effect:

The Municipality could not ascertain it had maintained proper accounting and safeguarding controls over its federally funded equipment.

Auditor's Recommendation:

The Municipality should include federally funded equipment separated by program within its inventory, and should perform annual inventories as required by state regulations in order to minimize the risk of loss or theft.

Views of responsible officials and corrective actions:

Management was unable to provide comments within a reasonable period of time, and will submit comments and corrective action descriptions shortly after the issuance of the auditor's report.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-3

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Community Development Block Grant – State Grant (CFDA 14.228)

Compliance Requirements: Procurement and Suspension and Debarment (I)

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: Not determined

Condition:

The Municipality does not verify that third-parties who provide goods and services, including construction contracts, to the CDBG program are not included in the OMB Suspended and Debarred List.

Context:

When interviewing personnel and observing selected procurement and disbursement actions, we found that the Municipality's CDBG staff does not verify and document that third parties contracted for goods and services with program funds are not included in the OMB Excluded Parties List. However, our tests did not reveal any excluded parties currently being contracted by the Municipality.

Criteria:

2 CFR part 180, which implements Executive Orders 12549 and 12689, and the OMB A-102 Common Rule (1)(d) require all federal agencies, their grantees and sub-grantees to avoid procuring goods and services using federal program funds from third parties who are suspended or debarred from doing so by the U.S. Office of Management and Budget (OMB).

The award contract between the Municipality and the PR Commissioner's Office for Municipal Affairs (pass-through grantor) requires, in one of its contract clauses, that the Municipality document in its contract files all procedures that were performed to verify that the contracted party is not suspended or debarred from participating in federally-funded activities.

Cause:

The Municipality did not thoroughly review the HUD guidelines regarding the requirements of procurement, suspension and debarment.

Effect:

The Municipality was exposed to the risk of disbursing federal funds to third parties who would be ineligible for receipt of such funds, entering noncompliance circumstances.

Auditor's Recommendation:

The Municipality must review all procurement actions for compliance with Suspension and Debarment requirements in order to avoid possible questioned costs and unallowed expenditures.

Views of responsible officials and corrective actions:

Management was unable to provide comments within a reasonable period of time, and will submit comments and corrective action descriptions shortly after the issuance of the auditor's report.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-4

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Special Tests and Provisions – Utility Allowance

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: Not determined

Condition:

The Municipality did not annually review its schedule of utility allowance as required by program regulations.

Context:

During the 2009-2010 fiscal year, the Municipality's Section 8 program did not perform the annual review of its utility allowance schedules, relying on the most recent available study, dated from FY 2008-2009, to determine each participant's allowance. It did not also verify changes in market prices in utility costs to determine whether they fluctuated more than 10%, which would also require a revision of the schedule.

Criteria:

4 CFR 982.517(c), Revisions of utility allowance schedule, requires that the Municipality must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there PHAs been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised.

Cause:

The Municipality did not thoroughly review the HUD guidelines regarding the requirements of utility allowances, and instruct its personnel to review the utility allowance determinations annually.

Effect:

The Municipality compensated participants with utility allowances which were not actualized with current utility costs.

Auditor's Recommendation:

The Municipality must review its schedule of utility allowance as soon as possible and actualize it to current market costs.

Additionally, the Municipality should deliver instructions to its staff regarding these HUD guidelines, and to constantly review authoritative guidance in order to assure that eligibility procedures and determinations are performed in full compliance with applicable regulations. It should implement controls to assure that the utility allowance schedules are reviewed and actualized annually.

Views of responsible officials and corrective actions:

Management was unable to provide comments within a reasonable period of time, and will submit comments and corrective action descriptions shortly after the issuance of the auditor's report.

END OF SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
(1) Prior Audit Findings, fully corrected or not noted during our audit:					
2009	01-09	Municipality's financial reporting system does not provide sufficient information to prepare GAAP financial statements.	14.228	None.	Situation was not observed in this year's audit.
2009	02-09	Monthly cash with fiscal agent reconciliations were not made.	14.228	None.	Situation corrected during audit period.
2009	03-09	Time elapsed between receiving of funds and payment to suppliers was too long.	14.228	None.	Situation was not observed in this year's audit.

(2) Prior Audit Findings, not corrected or partially corrected:

2009	01-09	The Municipality did not submit certain required reports.	14.228	None.	See 2010-III-1 for details.
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(3) Corrective action taken is significantly different from corrective action previously reported:

None.

(4) Audit findings are no longer valid:

None.

END OF SCHEDULE