

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO  
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO  
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

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*Gil Alberto Ortiz Cabrera*  
Certified Public Accountant & Professional Consultant

*Member of: The American Institute of Certified Public  
Accountants (AICPA)  
Puerto Rico Board of Certified Public  
Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Naranjito of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on my 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of Naranjito of the Commonwealth of Puerto Rico, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated February 21, 2011, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A-133. *Audit of States, Local Government, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquires to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Gil Alberto Ortiz Cabrera*

February 21, 2011

CPA Gil Alberto Ortiz Cabrera

License 1332, expires

In December 1, 2013

Stamp #2586939 was affixed  
to the original report.



PMB 44A HC-01 Box 29030 Caguas, Puerto Rico 00725-8900  
787-781-7699 & 939-969-8400  
email: [cpagilaortizpr@hotmail.com](mailto:cpagilaortizpr@hotmail.com)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO  
MANAGEMENT'S AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2010

This discussion and analysis of the Municipality of Naranjito (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2010. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2010. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

**FINANCIAL HIGHLIGHTS**

1. Total Net Assets of the Municipality as of the end of the indicated fiscal year 2010 amounted to \$ 61,422,284, or seventy nine percent (79%) of total assets.
2. At the end of fiscal year 2010, total liabilities amounted to \$16,746,790. Out of said amount, \$14,185,519 corresponded to long-term liabilities of which \$12,349,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues;
3. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$19,695,576, derived from the following sources: \$120,035 charges for services; \$6,322,202 from operating grants and contributions; \$1,050,183 from capital grants and contributions obtained from other sources, and \$12,203,156 from general revenues available;
4. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$13,192,596 or \$1,715,398 over the similar figure corresponding to the previous fiscal year 2008-2009.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

**FINANCIAL HIGHLIGHTS (CONTINUED)**

5. In the fund financial statements, the governmental activities revenue decrease \$1,535,375 (or 7%) while governmental activities expenditures decrease 1,836,493 (or 9%).
6. The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$ 16,826.
7. On a budgetary basis, actual revenues exceeded actual expenditures by \$1,129,040.

**FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2010. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

**FINANCIAL STATEMENTS COMPONENTS**

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Naranjito constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of The Statements of Activities of the Municipality at June 30, 2010, shows total expenses incurred to afford the cost of all functions and programs amounted to \$17,290,690. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$7,492,420 was derived from the following sources: \$120,035 charges for services; \$6,322,202 from operating grants and contributions; and \$1,050,183 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$12,203,156. When such figure is added to the \$7,492,420 previously mentioned, total revenues available for the financing of activities amounted to \$19,695,576. There was an excess of revenues over expenses in the amount of \$2,404,886 which contributed to the figure of net assets attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

**INFRASTRUCTURE ASSETS**

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality commenced the reporting of infrastructure assets since July 1, 2003. Also, the Municipality elected to depreciate infrastructure over the assets useful life instead of using the modified approach.

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

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$61,422,584 at the end of 2010, compared to \$59,017,698 at the end of the previous year. Such increase in the total assets is mainly due to the capitalization of infrastructure assets and construction in progress.

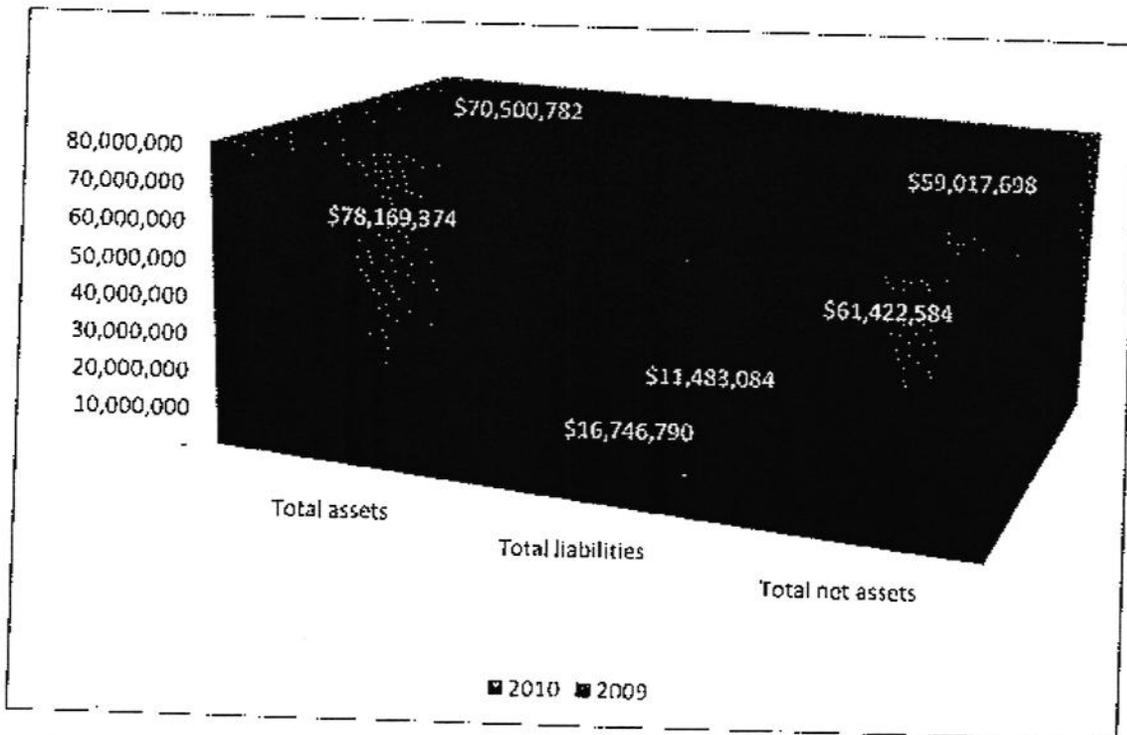
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets				
	2010	2009	Change	%
Current and other assets	\$ 15,086,944	\$ 13,297,985	\$ 1,788,959	13%
Capital assets	63,082,430	57,202,797	5,879,633	10%
Total assets	78,169,374	70,500,782	7,668,592	11%
Current and other liabilities	2,561,271	1,820,787	740,484	41%
Long-term liabilities	14,185,519	9,662,297	4,523,222	47%
Total liabilities	16,746,790	11,483,084	5,263,706	46%
Invested in capital assets, net of related debt	50,733,430	49,863,797	869,633	2%
Restricted	12,593,976	10,895,403	1,698,572	16%
Unrestricted deficit	(1,904,821)	(1,741,502)	(163,319)	9%
Total net assets, as restated	\$ 61,422,584	\$ 59,017,698	\$ 2,404,886	4%



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Municipality's net assets increased by \$2,404,886. Approximately 26 percent of the Municipality's total revenue came from taxes, while 71 percent resulted from grants and contributions, including federal aid. Charges for service, interest and investment earnings, and miscellaneous categories, provided 3 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, and health and welfare services. A comparative analysis of government-wide data with prior year is presented as follows:

Condensed Statement of Activities	2010	2009	Change	%
<b>Program revenues:</b>				
Charges for services	\$ 120,035	\$ 254,451	\$ (134,416)	(53)%
Operating grants and contributions	6,322,202	6,398,232	923,970	17%
Capital grants and contributions	1,050,183	3,433,254	(2,383,071)	(69)%
<b>General revenues:</b>				
Property taxes	2,576,577	1,445,277	1,131,300	78%
Municipal sales and use tax	1,377,473	1,366,779	10,694	1%
Municipal license tax	1,079,195	1,076,337	2,858	.2%
Grants and contributions not restricted to specific programs	6,698,127	7,204,680	(506,553)	(7)%
Interest and investment earnings	216,065	310,325	(94,260)	(30)%
Miscellaneous	255,719	109,120	146,599	134%
<b>Total revenues</b>	<u>10,695,576</u>	<u>20,598,455</u>	<u>(902,879)</u>	<u>(4)%</u>
<b>Expenses:</b>				
General government	6,166,474	6,162,380	(4,094)	-
Public safety	922,090	359,469	(562,621)	(157)%
Public works	7,208,809	2,818,208	(4,390,601)	(156)%
Culture and recreation	152,289	917,804	765,515	83%
Health and welfare	2,268,175	2,775,275	507,100	18%
Community development	234,548	1,429,582	1,195,034	84%
Urban development	34,131		(34,131)	(100)%
Education	61,425	15,737	(45,688)	(290)%
Interest on long term debt	242,749	296,145	53,396	18%
<b>Total expenses</b>	<u>17,290,690</u>	<u>14,774,600</u>	<u>(2,516,090)</u>	<u>(17)%</u>
<b>Change in net assets</b>	2,404,886	5,823,855	(3,418,969)	(59)%
<b>Net assets, beginning of year</b>	<u>59,017,698</u>	<u>53,193,843</u>	<u>5,823,855</u>	<u>11%</u>
<b>Net assets, end of year</b>	<u>\$ 61,422,584</u>	<u>\$ 59,017,698</u>	<u>\$ 2,404,886</u>	<u>4%</u>

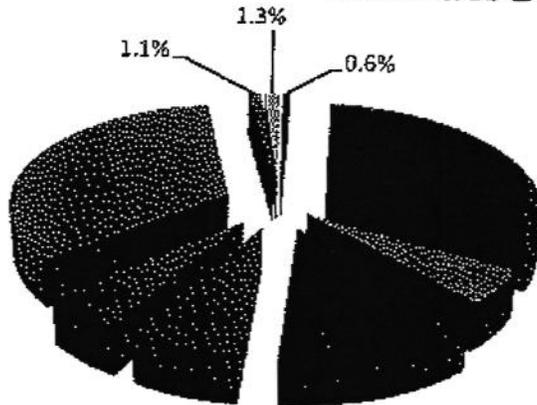
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

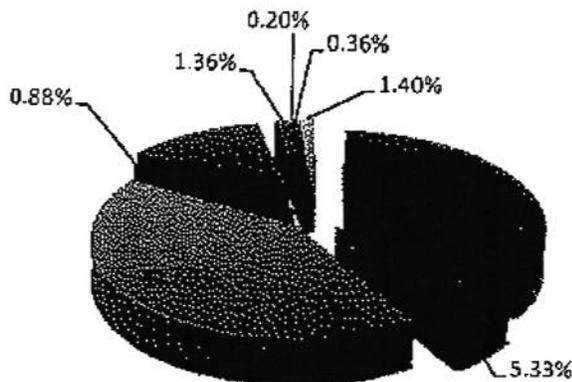
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

**Revenues 2010**



- Charges for services
- Operating grants and contributions
- Capital grants and contributions
- Property taxes
- Municipal sales and use tax
- Municipal license tax
- Grants and contributions not restricted to specific programs
- Interest and investment earnings
- Miscellaneous

**Expenses 2010**



- General government
- Public safety
- Public works
- Culture and recreation
- Health and welfare
- Community development
- Urban development
- Education
- Interest on long-term debt

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$13,192,596 an increase of \$1,715,398 in comparison with the prior year. There are reservations of fund balance amounting to \$12,612,025. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$18,050), 2) to pay for capital projects (\$8,875,926), 4) for other purposes (\$1,950,204), and in the debt service fund (\$1,767,845).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2010, the general fund has a fund balance of \$598,621.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include carryover resulted from prior year operations that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a favorable balance of \$1,129,040, mainly to unexpected variances in revenues and expenditures.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2010, amounts to \$74,703,130, with an accumulated depreciation of \$(11,620,700), leaving a net book value of \$63,082,430. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$5,879,633 in terms of net book value. Depreciation charges for the year totaled \$ 1,091,594.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2010 the Municipality has \$8,875,926 of unexpended proceeds from bond issuances that are committed to future construction activities.

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2010-2011.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2010-2011 fiscal years.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 53 Naranjito, PR 00719-0053.

Commonwealth of Puerto Rico  
Municipality of Naranjito  
Statement of Net Assets  
June 30, 2010

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 4,964,852
Cash with fiscal agent	8,761,524
Accounts receivable:	
Municipal license tax	469
Intergovernmental	710,247
Federal grant	649,852
Capital assets:	
Land, improvements, and construction in progress	44,372,839
Other capital assets, net of depreciation	18,709,591
Total capital assets	<u>63,082,430</u>
 Total assets	 <u>78,169,374</u>
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	1,049,561
Due to other governmental entities	231,260
Deferred revenues:	
Municipal license tax	603,242
Federal grant revenues	10,285
Noncurrent liabilities:	
Due within one year	666,923
Due in more than one year	<u>14,185,519</u>
 Total liabilities	 <u>16,746,790</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	50,733,430
Restricted for:	
Capital projects	8,875,926
Debt service	1,767,845
Federal and state grant funds	1,950,204
Unrestricted (deficit)	<u>(1,904,821)</u>
 Total net assets	 <u>\$ 61,422,584</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico  
Municipality of Naranjito  
Statement of Activities  
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 6,166,174	\$ 2,650	\$ 2,933,053	\$ -	\$ (3,230,771)
Public safety	922,090	2,086	319,969	-	(600,035)
Public works	7,208,809	-	850,375	1,050,183	(5,308,251)
Health and welfare	2,268,175	-	1,885,195	-	(382,980)
Culture and recreation	152,289	116,299	333,610	-	296,620
Community development	234,548	-	-	-	(234,548)
Urban development	34,131	-	-	-	(34,131)
Education	61,425	-	-	-	(61,425)
Interest on long-term debt	242,749	-	-	-	(242,749)
<b>Total governmental activities</b>	<b>\$ 17,290,690</b>	<b>\$ 120,035</b>	<b>\$ 6,322,202</b>	<b>\$ 1,050,183</b>	<b>\$ (9,798,270)</b>
General revenues:					
Property taxes					2,576,577
Municipal license tax					1,079,196
Municipal sales and use tax					1,377,473
Grants and contributions not restricted to specific programs					6,698,127
Interest and investment earnings					216,085
Miscellaneous					255,719
<b>Total general revenues</b>					<b>12,203,156</b>
Change in net assets					2,404,886
Net assets - beginning					59,017,698
Net assets - ending					\$ 61,422,584

Commonwealth of Puerto Rico  
Municipality of Naranjito  
Balance Sheet  
Governmental Funds  
June 30, 2010

	General Fund	Special Revenue State and Federal Grants	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 875,080	\$ 2,015,744	\$ 2,074,019	\$ -	\$ 4,964,852
Cash with fiscal agent		3,582	6,990,097	1,767,845	8,781,524
Accounts receivable:					
Municipal license tax	468				468
Intergovernmental		702,460	7,787		710,247
Federal grant		649,852			649,852
Due from other funds	1,360,883				1,360,883
<b>Total assets</b>	<b>\$ 2,236,441</b>	<b>\$ 3,371,038</b>	<b>\$ 9,071,903</b>	<b>\$ 1,767,845</b>	<b>\$ 16,447,827</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 803,318	\$ 214,243	\$ 32,000	\$ -	\$ 1,049,561
Due to other governmental entities	231,260				231,260
Due to other funds		1,198,906	163,977		1,360,883
Deferred revenues:					
Municipal license tax	603,242				603,242
Federal grant revenues		10,285			10,285
<b>Total liabilities</b>	<b>1,637,820</b>	<b>1,421,434</b>	<b>195,977</b>	<b>-</b>	<b>3,255,231</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Encumbrances	18,050				18,050
Capital projects			8,875,926		8,875,926
Other purposes		1,950,204			1,950,204
<b>Reserved reported in non-major funds:</b>					
Debt service fund				1,767,845	1,767,845
<b>Unreserved:</b>					
Undesignated	580,571				580,571
<b>Total fund balances</b>	<b>588,621</b>	<b>1,950,204</b>	<b>8,875,926</b>	<b>1,767,845</b>	<b>13,192,596</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,226,441</b>	<b>\$ 3,371,038</b>	<b>\$ 9,071,903</b>	<b>\$ 1,767,845</b>	<b>\$ 16,447,827</b>

Commonwealth of Puerto Rico  
Municipality of Naranjito  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2010

	General Fund	Special Revenue State and Federal Grants	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 1,730,833	\$ -	\$ -	\$ 845,714	\$ 2,576,547
Municipal sales and use tax	953,843			423,630	1,377,473
Municipal license taxes	1,079,195				1,079,195
Licenses, permits and other local taxes	445,759				445,759
Intergovernmental	6,252,357	3,259,967	1,050,183		10,562,517
Rent of property	115,299				115,299
Fines and forfeitures	2,086				2,086
Interest	216,055				216,055
Charge for services	2,650				2,650
Federal grants		2,840,627			2,840,627
Miscellaneous	230,102	49,269	25,617		304,988
<b>Total revenues</b>	<b>\$ 11,028,199</b>	<b>\$ 6,158,863</b>	<b>\$ 1,075,800</b>	<b>\$ 1,269,374</b>	<b>\$ 19,532,236</b>
<b>Expenditures</b>					
<b>Current:</b>					
General government	5,155,983	550,227	5,158		5,720,368
Public safety	720,649	142,683			863,332
Public works	3,498,355	2,270,559	2,994,453		8,763,367
Health and welfare	906,138	1,596,887	101,740		2,604,765
Culture and recreation	537,580	90,041	1,819,028		2,446,649
Community development		1,566,619	522,711		2,089,330
Urban development	34,131				34,131
Education	60,547	1,800			62,347
Debt service:					
Principal				570,000	570,000
Interest				242,749	242,749
<b>Total expenditures</b>	<b>10,913,383</b>	<b>6,227,616</b>	<b>5,443,090</b>	<b>812,749</b>	<b>23,396,838</b>
Excess (deficiency) of revenues over (under) expenditures	114,816	(68,753)	(4,367,290)	456,625	(3,864,602)
<b>Other financing sources (uses)</b>					
Transfers in		50,376		47,614	97,990
Transfers out	(97,990)				(97,990)
Long-term debt issued			5,580,000		5,580,000
<b>Total other financing sources (uses)</b>	<b>(97,990)</b>	<b>50,376</b>	<b>5,580,000</b>	<b>47,614</b>	<b>5,580,000</b>
<b>Net changes in fund balances</b>	<b>16,826</b>	<b>(18,377)</b>	<b>1,212,710</b>	<b>504,239</b>	<b>1,715,398</b>
Fund balance, beginning	581,795	1,968,581	7,603,216	1,263,806	11,417,198
<b>Fund balance, ending</b>	<b>\$ 598,621</b>	<b>\$ 1,950,204</b>	<b>\$ 8,815,926</b>	<b>\$ 1,768,045</b>	<b>\$ 13,132,806</b>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico  
Municipality of Naranjito  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
For the Year Ended June 30, 2010

Total Fund Balances - Governmental Funds \$ 13,192,596

Amounts reported for Governmental Activities in the Statement of Net Assets  
are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore,  
are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 44,372,839	
Depreciable Capital Assets	30,330,291	
Accumulated Depreciation	<u>(11,620,700)</u>	
Total Capital Assets		63,082,430

Some liabilities are not due and payable in the current period and therefore, are not  
reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	17,349,000	
Law 42	673,858	
LIMS Repayment Plan	17,068	
Property Taxes Debt	1,372	
Law 146	68,937	
Compensated Absences	1,661,835	
Final CRIM Liquidation	<u>90,272</u>	
Total Long-Term Liabilities		<u>(14,852,442)</u>

Total Net Assets of Governmental Activities \$ 61,422,584

Commonwealth of Puerto Rico  
Municipality of Naranjito  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes In Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds		\$ 1,715,398
 Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		6,808,440
Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period.		163,340
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Changes in Net Assets.		(553)
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(1,091,584)
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.		(5,010,000)
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term property tax advance debt from prior year.		(38,782)
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year.		(151,936)
Repayment of long term Land Information Management System (LIMS) is an expenditure in Governmental Funds, but the repayment reduces long term LIMS in the Government-Wide Statement of Net Assets. The following amount represent the change in long term LIMS debt from prior year.		10,573
		<u>10,573</u>
Change in Net Assets of Governmental Activities		<u>\$ 2,404,896</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Naranjito (the Municipality) was founded on the year 1824. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2008. The Municipality implemented the capitalization of infrastructure as of July 1, 2007.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

*General Fund*- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

*Special Revenue Fund - State and Federal Grants*- is the accounting entity in which revenues derived from state and federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

*Capital Projects Fund* - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

For financial reporting purposes, the Municipality classifies funds within the following categories:

Governmental Fund Types

*General Fund*- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Special Revenue Fund - Federal Grants** - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund - Local and State Grants** - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Fund** - Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**Capital Projects Funds - Local, State and Federal Grants** - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

**Other Governmental Funds** - The other governmental funds are non-major governmental funds used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conforms to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, liabilities and net assets

1. **Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

3. **Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

- 5. Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

- 6. Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

- 7. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. **Reservations of fund balance-** Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
  - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
  - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
  - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Net Assets -** In the government-wide statements, net assets are segregated into three categories:
- a. **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 assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
  - b. **Restricted net assets:** Represent net assets that are subject to restrictions beyond the Municipal'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).
  - c. **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 statement of net assets.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**10. Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

**11. Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:

- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**12. Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2010 amounted to approximately \$245,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$178,000 for workers compensation insurance covering all municipal employees.

**2. CASH AND CASH EQUIVALENTS**

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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2. CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2010.

**Interest rate risk** - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2010, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2010, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2010, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** - In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

**Custodial credit risk** -In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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2. CASH AND CASH EQUIVALENTS (CONTINUED)

deposit transactions have been incurred by the Municipality through June 30, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

*Foreign exchange risk* - The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant.

Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$875,089, \$2,015,744 and \$2,074,019 in the general fund, special revenue fund - federal and state grants, and capital projects fund, respectively, were fully collateralized at June 30, 2010.

The deposits at GDB of \$3,582 that is restricted for specific purposes in the special revenue fund, \$6,990,097 in the capital projects fund and \$1,767,845 in the other governmental fund that is restricted for debt service are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

- A. *Municipal License Tax*- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2010, the tax rates were as follows:

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. RECEIVABLES (CONTINUED)

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2010, net of allowance for uncollectible accounts.

Municipal license taxes, collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

- B. *Intergovernmental Receivable*- Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

<u>Program Description</u>	<u>Amount</u>
Traffic Safety Commission	\$ 89,270
SH Program	7,841
OMEP	10,962
Family Department - ACUDEN	99,478
Others	<u>502,698</u>
Total	<u>\$ 710,247</u>

- C. *Federal Grants Receivable*- Federal grants receivable in special revenue state and federal grants represents expenditures incurred not yet reimbursed by the pass through grantor. Following is a detail of the federal grants receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant State Program	\$ 474,170
Child Care	55,299
FEMA - Jeanne	62,451
Section 8	<u>57,932</u>
Total	<u>\$ 649,852</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2010, and interfund transfers during the fiscal year ended at June 30, 2010, are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,360,883	\$ -
Special Revenue State and Federal Fund	-	1,196,906
Other Governmental Fund	-	<u>163,977</u>
Total	<u>\$ 1,360,883</u>	<u>\$ 1,360,883</u>

b. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue - State and Federal Fund	Transfer funds to cover projects and improvements	\$ 50,376
General Fund	Other Governmental Funds	Transfer funds to cover debt service payments	<u>47,614</u>
Total			<u>\$ 97,990</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**5. CAPITAL ASSETS**

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 21,935,964	\$ 163,339	\$ -	\$ 22,099,303
Construction in progress	<u>21,495,677</u>	<u>3,022,243</u>	<u>(2,244,284)</u>	<u>22,273,536</u>
<b>Total capital assets not being depreciated</b>	<u>43,431,541</u>	<u>3,185,582</u>	<u>(2,244,284)</u>	<u>44,372,839</u>
<b>Capital assets, being depreciated:</b>				
Buildings	\$ 5,128,957	\$ 2,523,062	\$ -	\$ 7,652,019
Buildings improvements	2,912,112	890,049	-	3,802,161
Infrastructure	6,540,804	297,241	-	6,838,045
Infrastructure improvements	3,581,491	2,149,215	-	5,730,706
Equipment	1,731,034	73,857	(8,155)	1,796,736
Furnishing	251,895	9,096	(1,348)	259,643
Works of art	1,965	435	-	2,400
Computers	244,887	87,527	(7,509)	324,905
Vehicles	<u>3,923,676</u>	<u>-</u>	<u>-</u>	<u>3,923,676</u>
<b>Total capital assets being depreciated</b>	<u>\$ 24,316,821</u>	<u>\$ 6,030,482</u>	<u>\$ (17,012)</u>	<u>\$ 30,330,291</u>
<b>Less accumulated depreciation for:</b>				
Buildings	\$ (2,036,523)	\$ (131,773)	\$ -	\$ (2,168,296)
Buildings improvements	(369,096)	(84,466)	-	(453,562)
Infrastructure	(2,275,249)	(166,389)	-	(2,441,638)
Infrastructure improvements	(612,064)	(296,555)	-	(908,616)
Equipment	(1,320,283)	(159,799)	7,666	(1,472,416)
Furnishing	(192,654)	(21,885)	1,344	(213,195)
Works of art	(616)	(165)	-	(781)
Computers	(179,128)	(52,047)	7,449	(223,726)
Vehicles	<u>(3,559,955)</u>	<u>(178,515)</u>	<u>-</u>	<u>(3,738,470)</u>
<b>Total accumulated depreciation</b>	<u>\$(10,545,565)</u>	<u>\$(1,091,594)</u>	<u>\$ 16,459</u>	<u>\$(11,620,700)</u>
<b>Total capital assets being depreciated, net</b>	<u>\$ 13,771,256</u>	<u>\$ 4,938,888</u>	<u>\$ (553)</u>	<u>\$ 18,709,591</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 57,202,797</u>	<u>\$ 8,124,470</u>	<u>\$(2,244,837)</u>	<u>\$ 63,082,430</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 259,616
Public safety	96,680
Public works	436,291
Culture and recreation	59,464
Health and welfare	17,376
Community development	218,452
Education	<u>4,716</u>
Total depreciation expense-governmental activities	<u>\$ 1,091,594</u>

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the preliminary liquidation noting that the advances exceeded collections by \$56,388 on an alleged inadequate procedure for the estimate of revenues applicable to the CRIM liquidation. In the government-wide financial statements, the entire amount has been recognized as long term debt.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. PROPERTY TAXES (CONTINUED)

On December 31, 1992, the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2010, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$ 1,372 and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2011	\$ 921
2012	... 451
Total	<u>\$1,372</u>

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000.

On June 26 1997, Public Law No. 21 was enacted, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**6. PROPERTY TAXES (CONTINUED)**

The annual tax rate is 7.83% for real property and 5.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Property tax revenues in the general and other governmental funds amounted to \$1,730,833 and \$845,744, respectively, for the fiscal year ended June 30, 2010.

**7. MUNICIPAL SALES AND USE TAX**

On November 8, 2006, the Municipal Legislature approved the Ordinance No. 7, Series 2006-2007, which imposes a Municipal Citizen's Contribution (sales and use tax) of 1.5%. The collection of said Contribution began on November 15, 2006. The Municipality collected approximately \$1,377,473 during the year ended on June 30, 2010.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund - State &amp; Local Grants</u>	<u>Capital Projects Fund - State &amp; Local Grants</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 793,448	\$ 214,243	\$ 32,000	\$ -	\$ 1,039,691
Accrued liabilities	9,870	-	-	-	9,870
<b>Total</b>	<u>\$ 803,318</u>	<u>\$ 214,243</u>	<u>\$ 32,000</u>	<u>\$ -</u>	<u>\$ 1,049,561</u>

**9. DUE TO OTHER GOVERNMENTAL ENTITIES**

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
General Services Administration	\$ 2,868
Retirement System Administration	176,806
Commonwealth of Puerto Rico Employee Association	11,760
Puerto Rico Telephone	10,294
Puerto Rico Aqueduct and Sewer Authority	29,532
<b>Total</b>	<u>\$ 231,260</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**10. DEFERRED REVENUES**

- A. **Municipal License Tax-** The deferred revenues of approximately \$603,000 in the general fund relates to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.
- B. **Federal Government-** The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are \$10,285.

<u>Program description</u>	<u>Amount</u>
Housing Preservation Grant	\$ 2,614
Child Care	<u>7,671</u>
Total	<u>\$10,285</u>

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2010, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and Notes Payable	\$7,339,000	\$5,580,000	\$ (570,000)	\$12,349,000	\$491,000
Compensated Absences	1,499,999	267,605	(115,669)	1,651,935	112,370
Property Tax Debt- Law 42	687,410	-	(13,552)	673,858	14,403
I.I.M.S- Repayment Plan	27,641	-	(10,573)	17,068	11,211
Due to other governmental entity - Law 146	72,070	-	(3,133)	68,937	3,134
Advances Property Tax	33,884	56,388	-	90,272	33,884
Property Tax Debt- Treasury	<u>2,293</u>	<u>-</u>	<u>(921)</u>	<u>1,372</u>	<u>921</u>
<b>Total</b>	<u>\$ 9,662,297</u>	<u>\$ 5,903,993</u>	<u>\$ (713,848)</u>	<u>\$14,852,442</u>	<u>\$ 666,923</u>

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**11. LONG-TERM LIABILITIES (CONTINUED)**

2. **Bonds and notes payable-** The Municipality issues general and special obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. Bonds and notes payable outstanding at June 30, 2010 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2010</u>
1995 Series	7-1-16	400,000	6.00 % to 8.00%	\$ 180,000
1996 Series	1-1-16	275,000	4.50%	117,000
1999 Series	7-1-24	56,000	4.50%	39,000
2000 Series	7-1-25	38,000	4.50%	28,000
2004 Series	7-1-10	785,000	4.17% to 5.00%	135,000
2007 Series	7-1-31	3,195,000	1.53% to 7.00%	3,050,000
2008 Series	7-1-16	40,000	4.75% to 6.50%	35,000
2008 Series	7-1-14	880,000	1.53% to 6.50%	630,000
2008 Series	7-1-32	2,685,000	1.53% to 7.25%	2,600,000
2009 Series	7-1-34	350,000	5.00% to 7.00%	345,000
2009 Series	7-1-34	335,000	5.00% to 7.00%	335,000
2009 Series	7-1-34	3,620,000	4.75% to 7.00%	3,620,000
2009 Series	7-1-35	1,010,000	5.00 to 7.50%	1,010,000
2009 Series	7-1-34	225,000	5.00 to 7.50%	<u>225,000</u>
				<u>\$ 12,349,000</u>

Total general obligation bonds

These bonds are payable from the special ad valorem property tax of 1.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds and notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 500,000	\$ 61,109
2012	396,000	803,172
2013	422,000	778,257
2014	469,000	765,073
2015	320,000	739,498
2016-2020	1,697,000	3,436,752
2021-2025	2,290,000	2,742,814
2026-2030	3,235,000	1,760,149
2031-2035	2,935,000	504,186
2036-2040	<u>85,000</u>	<u>3,188</u>
Total	<u>\$ 12,349,000</u>	<u>\$ 12,094,198</u>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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11. LONG-TERM LIABILITIES (CONTINUED)

3. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,651,935 of accrued sick leave and vacations benefits, representing the Municipality's commitment to fund such costs from future operations.
4. **Property Tax Debt-** This amount represent the balance owed to the CRIM at June 30, 2010 as described in Note 9, from property tax advances in excess of actual collections.
5. **LIMS Repayment Plan-** During the fiscal year 2000-2001 the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$810,183 is to be retained in ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2010, the outstanding balance is \$17,068.
6. **Due to other governmental entity -** This amount represents the balance owed to the Government Development Bank related to a loan to pay a debt to the CRIM from the accounts sold to a collection agency, as described in Note 9.
7. **Advance Property Tax -** This amount represent the property tax advances in excess of the amount actually collected by the CRIM during the fiscal year 2009-10.

12. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment. The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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12. PENSION PLAN (CONTINUED)

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions during the year ended June 30, 2010 amounted to approximately \$377,247, this amount represented 100% of the required contribution.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to 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 ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**12. PENSION PLAN (CONTINUED)**

Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**13. RISK MANAGEMENT**

The Property Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Department Division submits the data regarding the Municipality's properties to the Area of Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**14. COMMITMENTS AND CONTINGENCIES**

**A. Federal Grants:**

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2010, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying basic financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2010:

- a. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010.
- b. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO**

**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND**

**YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 1,730,832	\$ 1,730,832	\$ 1,730,833	\$ 1
Municipal license tax	1,048,000	1,048,000	1,079,195	31,195
Municipal sales and use tax	876,930	876,930	953,843	76,913
Licenses, permits and other local taxes	480,000	480,000	445,759	(34,241)
Charges for service	3,000	3,000	2,650	(350)
Intergovernmental	6,013,702	6,013,702	6,252,367	238,665
Rent of property	75,000	75,000	115,299	40,299
Fines and forfeitures	4,000	4,000	2,086	(1,914)
Interest	195,000	195,000	216,065	21,065
Miscellaneous	<u>58,000</u>	<u>58,000</u>	<u>230,102</u>	<u>172,102</u>
<b>Total revenues</b>	<u>10,484,464</u>	<u>10,484,464</u>	<u>11,028,199</u>	<u>543,735</u>
<b>Budget carryover (1)</b>	<u>607,025</u>	<u>607,025</u>	<u>607,025</u>	<u>-</u>
<b>Total revenues after carryover</b>	<u>11,091,489</u>	<u>11,091,489</u>	<u>11,635,224</u>	<u>543,735</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
<b>Current:</b>				
General government	\$ 5,082,627	\$ 5,218,786	\$ 4,921,921	\$ 296,864
Public safety	815,727	809,909	721,924	87,985
Public works	3,517,959	3,461,823	3,323,943	137,880
Health and welfare	908,038	928,897	906,138	22,759
Culture and recreation	615,239	562,539	537,580	24,959
Education	110,389	73,504	60,547	12,957
Urban development	<u>41,510</u>	<u>36,032</u>	<u>34,131</u>	<u>1,901</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>11,091,489</u>	<u>11,091,489</u>	<u>10,506,184</u>	<u>585,305</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>1,129,040</u>	<u>1,129,040</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis)*available for appropriation* from the budgetary comparison schedule				\$ 11,635,224
Differences-budget to USGAAP:				
Budget carryover				<u>(607,025)</u>
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 11,028,199</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)*total charges to appropriations* from the budgetary comparison schedule				\$ 10,506,184
Differences-budget to USGAAP:				
Non-budgeted expenditures				408,749
Operating transfer out to other funds				97,990
Prior year encumbrances recorded as current year expenditures for USGAAP basis				16,500
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(18,050)</u>
<b>Total expenditures and other financial uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$11,011,373</u>

(1) Represents fund balance carried over from prior years

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO SCHEDULE OF FEDERAL EXPENDITURES AWARDS

YEAR ENDED JUNE 30, 2010

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1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2010 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2010.

**Municipality of Naranjito  
Audited Financial Statements  
Single Audit Section  
For the year Ended June 30, 2010**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO  
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010

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

*Gil Alberto Ortiz Cabrera*

*Certified Public Accountant & Professional Consultant*

*Member of:  
The American Institute of Certified Public  
Accountants (AICPA)  
Puerto Rico Board of Certified Public  
Accountants*

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

Honorable Mayor and Members  
of The Municipal Assembly  
Municipality of Naranjito  
Naranjito, Puerto Rico

We have audited the financial statements of the Municipality of Naranjito as of and for the year ended June 30, 2010, and have issued our report thereon dated February 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality of Naranjito internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality of Naranjito financial statements will not be prevented, or detected and corrected on a timely basis.

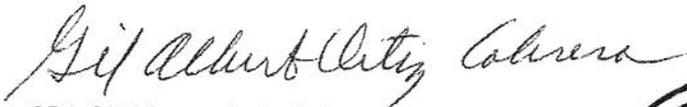
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that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

## Compliance and other matters

As part of obtaining reasonable assurance about whether the Municipality of Naranjito 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to management of the Municipality of Naranjito in a separate letter dated February 21, 2011.

This report, is intended solely for the information and use of the Major, the Municipal Assembly, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities and not is intended to be and should not used by anyone other than these specified parties.



CPA Gil Alberto Ortiz Cabrera  
License 1332  
Stamp #2586949 was affixed  
to the original report  
San Juan, Puerto Rico  
February 21, 2011



PMB 444 HC-01 Box 29030 Caguas, Puerto Rico 00725-8900  
787-781-7699 & 939-969-8400  
email: [cpagilaortizpr@hotmail.com](mailto:cpagilaortizpr@hotmail.com)

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

*Gil Alberto Ortiz Cabrera*

*Certified Public Accountant & Professional Consultant*

*Member of:*

*The American Institute of Certified Public Accountants (AICPA)*

*Puerto Rico Board of Certified Public Accountants*

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

Honorable Major and Members  
of the Municipal Assembly  
Municipality of Naranjito  
Naranjito, Puerto Rico

Compliance

We have audited the compliance of Municipality of Naranjito 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. The Municipality of Naranjito 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 the Municipality of Naranjito management. Our responsibility is to express an opinion on the Municipality of Naranjito compliance based on our audit.

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

In our opinion, the Municipality of Naranjito complied, in all material respects, with the requirements referred to above that are applicable to each of its federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of findings and questioned costs.

## Internal Control Over Compliance

The management of the Municipality of Naranjito 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 the audit, we considered the Municipality of Naranjito internal control over compliance with 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, 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 the Municipality of Naranjito internal control over compliance.

*A control deficiency in an entity's internal control control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program in a timely basis. *A material weakness in the 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is not intended to be and should not used by anyone other than these specified parties.

*Gil Alberto Ortiz Cabrera*

CPA Gil Alberto Ortiz Cabrera  
License 1332  
Stamp #2586950 was affixed  
to the original report  
San Juan, Puerto Rico  
February 21, 2011



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Program:			
Section 8 Housing Choice Voucher	14.871	NOT AVAILABLE	\$ 761,539
Direct Program:			
Supportive Housing Program	14.235	NOT AVAILABLE	57,027
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Community Development Block Grants - State's Program	14.228	NOT AVAILABLE	<u>1,588,361</u>
Total U.S. Department of Housing and Urban Development:			<u>2,406,927</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.600	NOT AVAILABLE	<u>98,856</u>
Total U.S. Department of Transportation			<u>98,856</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Homeland Security Grant Program			
	97.067	NOT AVAILABLE	<u>119,908</u>
Total U.S. Department of Homeland Security			<u>119,908</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico - Family Department:			
Child Care and Development Block Grant	93.575	NOT AVAILABLE	<u>219,541</u>
Total U.S. Department of Health and Human Services			<u>219,541</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$2,845,232</u></u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

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1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Naranjito and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Funds	Total
Per Schedule of Expenditures of Federal Awards	\$2,845,232	\$2,845,232
Non - federal programs Expenditures	1,171,369	1,171,369
Total expenditures in the fund financial statements	<u>\$4,016,601</u>	<u>\$4,016,601</u>

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness (es) identified?      Yes   X   No
- Reportable condition(s) identified that are not considered to be material weakness?   X   Yes      No

Noncompliance material to financial statements noted?      Yes   X   No

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified?      Yes   X   No
- Reportable condition(s) identified that are not considered to be material weakness?      Yes   X   No

Type of auditor's report issued on compliance for major programs: unqualified.

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?      Yes   X   No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
14.228	CDBG
14.871	Section 8

Dollar threshold used to distinguished between type A and the type B programs: \$300,000

Auditee qualified as low risk auditee?   X   Yes      No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NARANJITO  
SCHEDULE OF FINDING AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG Community Development Block Grant CFDA 14.228	- Condition 10-1  The Municipality Keeps bank balances over \$5,000.	\$ -0-

Criteria

OCAM procedures manual states that you should not Keep balances to \$5,000 for non-interest bearing account.

Cause

Cash management requires improvement.

Effect

Noncompliance with OCAM requirement.

Recommendation

In those cases in which the balances available exceed \$5,000 the Municipality submit a certification to OCAM indicating the justification for that condition.

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

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Our audit of revealed that the Municipality of Naranjito has maintained an effective system of internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. There no prior year findings because all of them have been resolved.