

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

**MUNICIPIO DE NARANJITO
AUDITORÍA 2010-2011
30 DE JUNIO DE 2011**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF NARANJITO

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

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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, 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, 2011, 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 our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, each major fund, and the aggregate remaining fund information of Municipality of Naranjito of the Commonwealth of Puerto Rico, as of June 30, 2011, 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 22, 2012 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 22, 2012
CPA Gil Alberto Ortiz Cabrera
License 1332, expires
In December 1, 2013
Stamp #2586984 was affixed
to the original report.



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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO**

MANAGEMENT'S AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2011

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, 2011. 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

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2011 deserve special mention:

1. Total Net Assets of the Municipality as of the end of the indicated fiscal year 2011 amounted to \$ 65,923,780, or seventy nine percent (79%) of total assets.
2. At the end of fiscal year 2011, total liabilities amounted to \$17,467,048. Out of said amount, \$15,082,645 corresponded to long-term liabilities of which \$13,309,000 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 \$20,227,506, derived from the following sources: \$116,982 charges for services; \$7,246,920 from operating grants and contributions; \$243,266 from capital grants and contributions obtained from other sources, and \$12,620,338 from general revenues available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL HIGHLIGHTS (CONTINUED)

4. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$15,079,772 or \$1,887,176 over the similar figure corresponding to the previous fiscal year 2009-2010.
5. In the fund financial statements, the governmental activities revenue increase \$293,238 (or 1%) while governmental activities expenditures decrease 3,968,540 (or 20%).
6. The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$ 60,012.
7. On a budgetary basis, actual revenues exceeded actual expenditures by \$1,078,245.

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 2011. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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 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, 2011, shows total expenses incurred to afford the cost of all functions and programs amounted to \$15,726,310. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$7,607,168 was derived from the following sources: \$116,982 charges for services; \$7,246,920 from operating grants and contributions; and \$243,266 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$12,620,338. When such figure is added to the \$7,607,168 previously mentioned, total revenues available for the financing of activities amounted to \$20,227,506. There was an excess of revenues over expenses in the amount of \$4,501,196 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may be better understand the long-term impact of the Municipality's near term financial decisions. The Government Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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 \$65,923,780 at the end of 2011, compared to \$61,422,584 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.

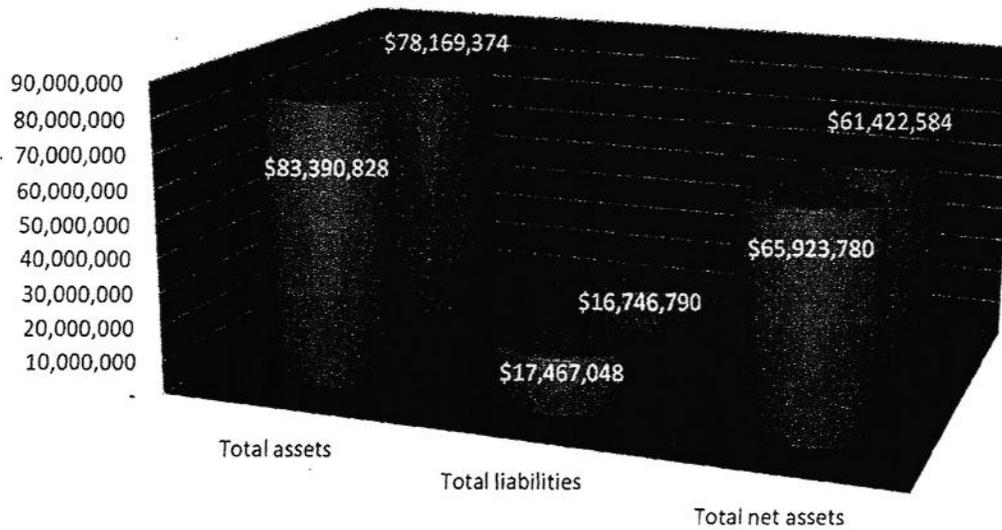
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2011	2010	Change	%
Current and other assets	\$ 16,797,037	\$ 15,086,944	\$ 1,710,093	11%
Capital assets	66,593,791	63,082,430	3,511,361	6%
Total assets	83,390,828	78,169,374	5,221,454	7%
Current and other liabilities	1,717,265	2,561,271	(844,006)	(33%)
Long-term liabilities	15,749,783	14,185,519	1,564,264	11%
Total liabilities	17,467,048	16,746,790	720,258	4%
Invested in capital assets, net of related debt	53,284,790	50,733,430	2,551,360	5%
Restricted	14,421,139	12,593,975	1,827,164	15%
Unrestricted deficit	(1,782,149)	(1,904,821)	122,672	6%
Total net assets	\$ 65,923,780	\$ 61,422,584	\$ 4,501,196	7%



■ 2011 ■ 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets increased by \$4,501,195. Approximately 26 percent of the Municipality's total revenue came from taxes, while 70 percent resulted from grants and contributions, including federal aid. Charges for service, interest and investment earnings, and miscellaneous categories, provided 4 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 follow:

Condensed Statement of Activities	2011	2010	Change	%
Program revenues:				
Charges for services	\$ 116,982	\$ 120,035	\$ (3,053)	(3)%
Operating grants and contributions	7,246,920	6,322,202	924,718	15%
Capital grants and contributions	243,266	1,050,183	(806,917)	(77)%
General revenues:				
Property taxes	2,885,557	2,576,577	308,980	12%
Municipal sales and use tax	1,265,925	1,377,473	(111,548)	8%
Municipal license tax	1,182,801	1,079,195	103,606	10%
Grants and contributions not restricted to specific programs	6,593,124	6,698,127	(105,003)	(2)%
Interest and investment earnings	486,851	216,065	270,786	125%
Miscellaneous	206,080	255,719	(49,639)	(19)%
Total revenues	<u>20,227,506</u>	<u>19,695,576</u>	<u>531,930</u>	<u>3%</u>
Expenses:				
General government	6,155,522	6,166,474	10,952	.18%
Public safety	866,146	922,090	55,944	6%
Public works	4,137,039	7,208,809	3,071,770	43%
Culture and recreation	689,077	152,289	(536,788)	(352)%
Health and welfare	2,601,675	2,268,175	(333,500)	(15)%
Community development	636,138	234,548	(401,590)	(171)%
Urban development	54,307	34,131	(20,176)	(59)%
Economic development	47,711	-	(47,711)	(100)%
Education	58,626	61,425	2,798	(5)%
Interest on long-term debt	480,069	242,749	(237,320)	(98)%
Total expenses	<u>15,726,310</u>	<u>17,290,690</u>	<u>1,564,379</u>	<u>9%</u>
Change in net assets	<u>4,501,196</u>	<u>2,404,886</u>	<u>2,096,310</u>	<u>87%</u>
Net assets, beginning of year	<u>61,422,584</u>	<u>59,017,698</u>	<u>2,404,886</u>	<u>4%</u>
Net assets, end of year	<u>\$ 65,923,780</u>	<u>\$ 61,422,584</u>	<u>\$ 4,501,196</u>	<u>7%</u>

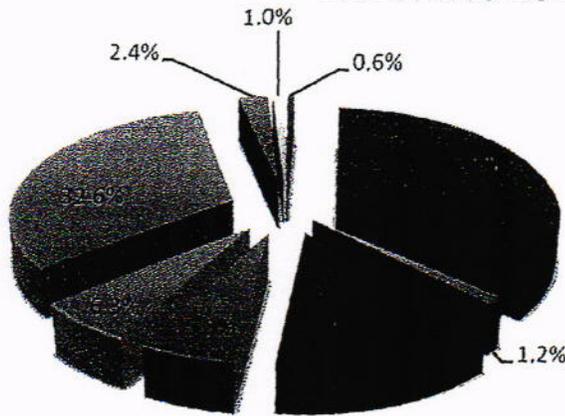
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

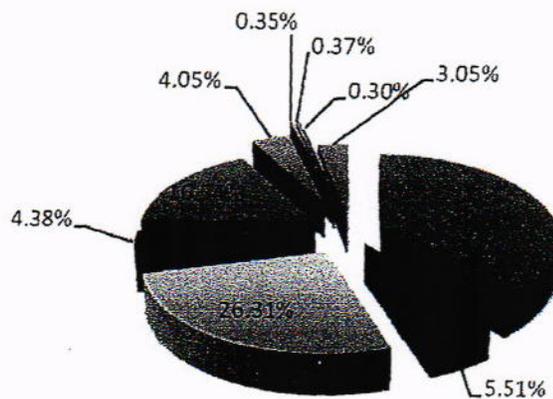
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2011



- Charges for Services
- Operating Grants and Contributions
- Capital Grants and Contributions
- Property Taxes
- Municipal License Tax
- Municipal Sales and Use Tax
- Grants and Contributions Not Restricted to Specific Programs
- Interest and Investment Earnings
- Miscellaneous

Expenses 2011



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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, unassigned 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 \$15,079,772 an increase of \$1,887,176 in comparison with the prior year. There are reservations of fund balance amounting to \$14,439,189. The combined fund balances include restricted fund balance amounting to \$13,976,455. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$3,301,340), 2) to pay for capital projects (\$8,156,637), 3), to pay debt services (\$2,518,478). There are committed fund balance amounting to \$444,684 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions, the \$444,684 are completely to pay for specific programs purpose. There are assigned fund balance amounting to \$18,050 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor), the \$18,050 are completely to pay for specific programs purposes.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2011, the general fund has an unassigned fund balance of \$640,583.

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 \$1,078,245, 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, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2011, amounts to \$79,346,240, with an accumulated depreciation of \$(12,752,449), leaving a net book value of \$63,593,791. 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 \$3,511,361 in terms of net book value. Depreciation charges for the year totaled \$ 1,152,384.

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, 2011 the Municipality has \$8,156,637 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 on the Municipality's Basic Tax revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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 2011-2012.

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 2011-2012 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, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,176,292
Cash with fiscal agent	8,034,595
Accounts receivable:	
Municipal license tax	6,112
Intergovernmental	853,261
Federal grant	726,777
Capital assets	
Land, improvements, and construction in progress	46,507,538
Other capital assets, net of depreciation	20,086,253
Total capital assets	<u>66,593,791</u>
 Total assets	 <u>83,390,828</u>
 Liabilities	
Accounts payable and accrued liabilities	982,456
Due to other governmental entities	108,821
Deferred revenues:	
Municipal license tax	611,128
Federal grant revenues	14,860
Noncurrent liabilities:	
Due within one year	667,138
Due in more than one year	<u>15,082,645</u>
 Total liabilities	 <u>17,467,048</u>
 Net Assets	
Invested in capital assets, net of related debt	53,284,790
Restricted for:	
Capital projects	8,156,637
Debt service	2,518,478
Federal and state grant funds	3,746,024
Unrestricted (deficit)	<u>(1,782,149)</u>
 Total net assets	 <u>\$ 65,923,780</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, 2011

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	\$ 6,155,522	\$ 3,804	\$ 3,286,701	\$ -	\$ (2,865,017)
Public safety	866,146	8,798	358,549		(498,799)
Public works	4,137,039		1,048,740	243,266	(2,845,033)
Health and welfare	2,601,675		2,089,306		(512,369)
Culture and recreation	689,077	104,380	463,624		(121,073)
Community development	636,138				(636,138)
Urban development	54,307				(54,307)
Economic development	47,711				(47,711)
Education	58,626				(58,626)
Interest on long-term debt	480,069				(480,069)
Total governmental activities	\$ 15,726,310	\$ 116,982	\$ 7,246,920	\$ 243,266	\$ (8,119,142)
General revenues:					
Property taxes					2,885,557
Municipal license tax					1,182,801
Municipal sales and use tax					1,265,925
Grants and contributions not restricted to specific programs					6,593,124
Interest and investment earnings					486,851
Miscellaneous					206,080
Total general revenues					12,620,338
Change in net assets					4,501,196
Net assets - beginning					61,422,584
Net assets - ending					\$ 65,923,780

**Commonwealth of Puerto Rico
Municipality of Naranjito
Balance Sheet
Governmental Funds
June 30, 2011**

	General Fund	Special Revenue State and Federal Grants	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 787,678	\$ 3,469,467	\$ 2,919,147	\$ -	\$ 7,176,292
Cash with fiscal agent		3,582	5,512,535	2,518,478	8,034,595
Accounts receivable:					
Municipal license tax	6,112				6,112
Intergovernmental		841,253	12,008		853,261
Federal grant		726,777			726,777
Due from other funds	1,346,745				1,346,745
Total assets	\$ 2,140,535	\$ 5,041,079	\$ 8,443,690	\$ 2,518,478	\$ 18,143,782
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 761,953	\$ 86,397	\$ 134,106		\$ 982,456
Due to other governmental entities	108,821				108,821
Due to other funds		1,193,798	152,947		1,346,745
Deferred revenues:					
Municipal license tax	611,128				611,128
Federal grant revenues		14,860			14,860
Total liabilities	1,481,902	1,295,055	287,053	-	3,064,010
Fund balances:					
Restricted		3,301,340	8,156,637	2,518,478	13,976,455
Committed		444,684			444,684
Assigned	18,050				18,050
Unassigned	640,583				640,583
Total fund balances	658,633	3,746,024	8,156,637	2,518,478	15,079,772
Total liabilities and fund balances	\$ 2,140,535	\$ 5,041,079	\$ 8,443,690	\$ 2,518,478	\$ 18,143,782

Commonwealth of Puerto Rico
Municipality of Naranjito
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Special Revenue State and Federal Grants	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 1,763,158	\$ -	\$ -	\$ 1,122,399	\$ 2,885,557
Municipal sales and use tax	761,175			504,750	1,265,925
Municipal license taxes	1,182,801				1,182,801
Licenses, permits and other local taxes	574,601				574,601
Intergovernmental	6,018,523	4,096,351	243,266		10,358,140
Rent of property	104,380				104,380
Fines and forfeitures	8,798				8,798
Interest	486,851				486,851
Charge for services	3,804				3,804
Federal grants		2,653,414			2,653,414
Miscellaneous	196,584	95,123	9,496		301,203
Total revenues	\$ 11,100,675	\$ 6,844,888	\$ 252,762	\$ 1,627,149	\$ 19,825,474
Expenditures					
Current:					
General government	5,680,316	310,568	133,831		6,124,715
Public safety	607,699	272,445			880,144
Public works	3,183,933	1,778,508	1,857,732		6,820,173
Health and welfare	796,853	1,614,550	156,892		2,568,295
Culture and recreation	475,051		57,954		533,005
Community development		1,005,520	325,010		1,330,530
Urban development	31,431	22,876			54,307
Economic development		47,711			47,711
Education	59,349				59,349
Debt service:					
Principal				530,000	530,000
Interest				480,069	480,069
Total expenditures	10,834,632	5,052,178	2,531,419	1,010,069	19,428,298
Excess (deficiency) of revenues over (under) expenditures	266,043	1,792,710	(2,278,657)	617,080	397,176
Other financing sources (uses)					
Transfers in		3,110	69,368	133,553	206,031
Transfers out	(206,031)				(206,031)
Long-term debt issued			1,490,000		1,490,000
Total other financing sources (uses)	(206,031)	3,110	1,559,368	133,553	1,490,000
Net changes in fund balances	60,012	1,795,820	(719,289)	750,633	1,887,176
Fund balance, beginning	598,621	1,950,204	8,875,926	1,767,845	13,192,596
Fund balance, ending	\$ 658,633	\$ 3,746,024	\$ 8,156,637	\$ 2,518,478	\$ 15,079,772

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, 2011

Total Fund Balances - Governmental Funds \$ 15,079,772

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	\$ 46,507,538	
Depreciable Capital Assets	32,838,702	
Accumulated Depreciation	<u>(12,752,449)</u>	
Total Capital Assets		66,593,791

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	13,309,000	
Law 42	659,455	
LIMS Repayment Plan	5,857	
Property Taxes Debt	451	
Law 146	65,803	
Compensated Absences	1,652,829	
Final CRIM Liquidation	<u>56,388</u>	
Total Long-Term Liabilities		<u>(15,749,783)</u>

Total Net Assets of Governmental Activities \$ 65,923,780

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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 1,887,176
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.	4,262,789
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.	402,032
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.	(1,076)
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.	(1,152,384)
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.	(960,000)
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.	52,342
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.	(894)
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.	<u>11,211</u>
Change in Net Assets of Governmental Activities	<u>\$ 4,501,196</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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 basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

The Municipality's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The following is a summary of the significant accounting policies of the Municipality:

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 government 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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

B. Government-wide and fund financial statements

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

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.

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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

General Fund - is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Special Revenue Funds-State and Federal Grants - is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Project Funds - is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports.

Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

4. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.

5. 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. Fund types are as follows:

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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

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

Government-wide financial statements - The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

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

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Government Fund Financial Statements - The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2011. At June 30, 2011, all revenues sources met this availability criterion.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet - Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet - Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet - Governmental Funds.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2011

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. Deferred revenues- In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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

7. **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.

8. **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.
9. **Fund balances-** In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- b. *Committed* – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- c. *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- d. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

10. Net Assets

Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

- 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.

11. Accounting for Pension Costs- On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

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

12. Inter-fund 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

13. 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, 2011 to \$279,042. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2011 amounted to \$230,795.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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

14. Use of Estimates

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

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.

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, 2011.

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, 2011, (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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

2. CASH AND CASH EQUIVALENTS (CONTINUED)

At June 30, 2011, 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, 2011, 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.

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 deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 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, 2011.

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 \$787,678, \$3,469,467 and \$2,919,147 in the general fund, special revenue fund – federal and state grants, and capital projects fund, respectively, were fully collateralized at June 30, 2011.

The deposits at GDB of \$3,582 that is restricted for specific purposes in the special revenue fund, \$5,512,535 in the capital projects fund and \$2,518,478 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2011, the tax rates were as follows:

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, 2011, 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	\$ 34,222
Family Department - ACUDEN	95,451
OMEF	108,150
Law No. 9	170,602
Law No. 52	220,339
Others	<u>224,497</u>
Total	<u>\$ 853,261</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	\$ 364,145
Child Care	107,824
FEMA - Jeanne	62,451
Homeless Prevention and Rapid Rehousing Program	18,926
Justice Assistance Grant Program	34,893
Section 8 Housing Choice Vouchers	134,254
Supportive Housing Program	<u>4,284</u>
Total	<u>\$ 726,777</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2011, and interfund transfers during the fiscal year ended at June 30, 2011, are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,346,745	\$ -
Special Revenue State and Federal Fund	-	1,193,798
Capital Projects Fund	-	<u>152,947</u>
Total	<u>\$ 1,346,745</u>	<u>\$ 1,346,745</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 Grants	Transfer in to cover Payrolls, accruals, and other expenditures not reimbursed	\$ 3,110
General Fund	Capital Projects Fund	Transfer in to cover projects and improvements	69,368
General Fund	Other Governmental Funds	To cover debt service payments	<u>\$ 133,553</u>
Total			<u>\$ 206,031</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 2011, 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, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital asset, not being depreciated:				
Land	\$ 22,099,303	\$ 402,032	\$ -	\$ 22,501,335
Construction in progress	<u>22,273,536</u>	<u>2,213,989</u>	<u>(481,322)</u>	<u>24,006,203</u>
Total capital assets not being depreciated	<u>44,372,839</u>	<u>2,616,021</u>	<u>(481,322)</u>	<u>46,507,538</u>
Capital assets, being depreciated:				
Buildings	\$ 7,652,019	\$ -	\$ -	\$ 7,652,019
Buildings improvements	3,802,161	88,288	-	3,890,449
Infrastructure	6,838,045	1,154,785	-	7,992,830
Infrastructure improvements	5,730,706	1,022,960	-	6,753,666
Equipment	1,796,736	98,355	(4,147)	1,890,944
Furnishing	259,643	10,115	(2,004)	267,754
Works of art	2,400	-	-	2,400
Computers	324,905	75,206	(15,506)	384,551
Vehicles	<u>3,923,676</u>	<u>80,413</u>	<u>-</u>	<u>4,004,089</u>
Total capital assets being depreciated	<u>\$ 30,330,291</u>	<u>\$ 2,530,122</u>	<u>\$ (21,711)</u>	<u>\$ 32,838,702</u>
Less accumulated depreciation for:				
Buildings	\$ (2,168,296)	\$ (191,300)	\$ -	\$ (2,359,596)
Buildings improvements	(453,562)	(96,683)	-	(550,245)
Infrastructure	(2,441,638)	(138,739)	-	(2,580,377)
Infrastructure improvements	(908,616)	(422,632)	-	(1,331,248)
Equipment	(1,472,416)	(136,186)	3,776	(1,604,826)
Furnishing	(213,195)	(19,846)	1,739	(231,302)
Works of art	(781)	(180)	-	(961)
Computers	(223,726)	(60,702)	15,120	(269,308)
Vehicles	<u>(3,738,470)</u>	<u>(86,116)</u>	<u>-</u>	<u>(3,824,586)</u>
Total accumulated depreciation	<u>\$ (11,620,700)</u>	<u>\$ (1,152,384)</u>	<u>\$ 20,635</u>	<u>\$ (12,752,449)</u>
Total capital assets being depreciated, net	<u>\$ 18,709,591</u>	<u>\$ 1,377,738</u>	<u>\$ (1,076)</u>	<u>\$ 20,086,253</u>
Governmental activities capital assets, net	<u>\$ 63,082,430</u>	<u>\$ 3,993,759</u>	<u>\$ (482,398)</u>	<u>\$ 66,593,791</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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	\$ 235,278
Public safety	71,163
Public works	439,266
Culture and recreation	115,000
Health and welfare	29,528
Community development	257,205
Education	<u>4,944</u>
Total depreciation expense-governmental activities	<u>\$ 1,152,384</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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2011, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$451 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 451
Total	\$ 451

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, 2011

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 \$1,763,158 and \$1,122,399, respectively, for the fiscal year ended June 30, 2011.

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 \$1,265,925 during the year ended on June 30, 2011.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund - State & Local Grants</u>	<u>Capital Projects Fund - State & Local Grants</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 751,362	\$ 86,397	\$ 134,106	\$ -	\$ 972,405
Accrued liabilities	<u>10,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,591</u>
Total	<u>\$ 761,953</u>	<u>\$ 86,397</u>	<u>\$ 134,106</u>	<u>\$ -</u>	<u>\$ 982,456</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	\$ 2,168
Department of Labor	11,433
Commonwealth of Puerto Rico Employee Association	12,441
Puerto Rico Treasury Department	22,035
Puerto Rico Aqueduct and Sewer Authority	<u>60,744</u>
Total	<u>\$ 108,821</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. DEFERRED REVENUES

- A. **Municipal License Tax-** The deferred revenues of approximately \$611,128 in the general fund relates to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.
- B. **Federal Grants-** 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 \$14,860.

<u>Program description</u>	<u>Amount</u>
Housing Preservation Grant	\$ 2,614
Human Resources and Occupational Development Council	4,575
Child Care	<u>7,671</u>
Total	<u>\$ 14,860</u>

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, 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	\$12,349,000	\$ 1,490,000	\$ (530,000)	\$13,309,000	\$421,000
Compensated Absences	1,651,935	165,811	(164,917)	1,652,829	165,000
Property Tax Debt- Law 42	673,858	-	(14,403)	659,455	15,308
LIMS- Repayment Plan	17,068	-	(11,211)	5,857	5,857
Due to other governmental entity - Law 146	68,937	-	(3,134)	65,803	3,134
Advances Property Tax	90,272	18,578	(52,462)	56,388	56,388
Property Tax Debt- Treasury	<u>1,372</u>	<u>-</u>	<u>(921)</u>	<u>451</u>	<u>451</u>
Total	<u>\$14,852,442</u>	<u>\$ 1,674,389</u>	<u>\$ (777,048)</u>	<u>\$15,749,783</u>	<u>\$ 667,138</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, 2011

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, 2011 are as follows:

Description	Balance at June 30, 2011
1996 Special obligation bond for the reconstruction of the municipality's infrastructure with an original amount of \$400,000 due in installments of \$25,000 to \$40,000 through July 1, 2016, with interest ranging from 6.00% to 8.00%	\$ 155,000
1996 Public improvement bond for infrastructure construction with an original amount of \$275,000 due in installments of \$18,000 to \$20,000 through July 1, 2016, with interest of 4.50%	100,000
1999 General obligation bond for infrastructure's construction with an original amount of \$56,000 due in installments of \$2,000 to \$4,000 through July 1, 2024, with interest of 4.50%	37,000
2000 General obligation bond for infrastructure construction with an original amount of \$38,000 due in installments of \$1,000 to \$3,000 through July 1, 2025, with interest rate of 4.50%	27,000
2007 General obligation bond for infrastructure's construction with an original amount of \$3,195,000 due in installments of \$40,000 to \$265,000 through July 1, 2032, with interest ranging from 1.53% to 7.00%	2,990,000
2009 Special obligation note for infrastructure's improvements with an original amount of \$40,000 due in installments of \$5,000 to \$10,000 through July 1, 2016, with interest ranging from 4.75% to 6.50%	30,000
2008 Special obligation note for equipment acquisition with an original amount of \$880,000 due in installments of \$120,000 to \$180,000 through July 1, 2014, with interest ranging from 1.53% to 6.50%	490,000
2008 Special obligation note for infrastructure's construction with an original amount \$2,685,000 due in installments of \$40,000 to \$225,000 through July 1, 2032 with interest ranging from 1.53% to 7.25%	2,555,000
2009 Special obligation bond for infrastructure's construction with an original amount of \$350,000 due in installments of \$5,000 to \$35,000 through July 1, 2034, with interest ranging from 5.00% to 7.00%	340,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2011
2009 General obligation bond for infrastructure's construction with an original amount of \$335,000 due in installments of \$5,000 to \$30,000 through July 1, 2034, with interest ranging from 5.00% to 7.00%	330,000
2009 General obligation bond for infrastructure's construction with an original amount of \$3,620,000 due in installments of \$55,000 to \$305,000 through July 1, 2034, with interest ranging from 4.75% to 7.00%	3,565,000
2009 Special obligation bond for infrastructure's construction with an original amount of \$225,000 due in installments of \$5,000 to \$20,000 through July 1, 2034, with interest ranging from 5.00% to 7.50%	220,000
2010 Special obligation bond for infrastructure's construction with an original amount of \$1,010,000 due in installments of \$10,000 to \$85,000 through July 1, 2035, with interest ranging from 5.00% to 7.50%	1,000,000
2011 Special obligation bond to compensate obligations related with the Municipal Revenue Collection Center (CRIM) with an original amount of \$1,490,000 due in installments of \$20,000 to \$130,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	<u>1,470,000</u>
Total	<u>\$ 13,309,000</u>

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:

Year Ending June 30,	Principal	Interest
2012	\$ 421,000	\$ 685,699
2013	452,000	883,370
2014	499,000	867,960
2015	350,000	848,329
2016	387,000	832,040
2017-2021	1,940,000	3,758,168
2022-2026	2,750,000	2,920,820
2027-2031	3,905,000	1,727,337
2032-2036	<u>2,605,000</u>	<u>344,731</u>
Total	<u>\$ 13,309,000</u>	<u>\$ 12,868,454</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

3. **Compensated absences-** The government-wide statement of net assets includes \$1,652,829 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, 2011 as described in Note 6, 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, 2011, the outstanding balance is \$5,857.
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 6.
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 2010-11.

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 plan 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, 2011

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. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

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, 2011 amounted to \$359,587, 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
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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.

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

Funding Policy

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

Contribution requirements are established by law and are as follows:

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

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2011	\$ 125,258	\$ 234,329
2010	\$ 141,075	\$ 236,172
2009	\$ 150,778	\$ 217,069

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

13. Fund Balance (Deficit)

As of June 30 2011, fund balance (deficit) is comprised of the following:

Fund Balance (Deficit)	General Fund	Special Revenue Fund- State & Federal Grants	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Restricted for:					
General Government	\$	244,835	\$ 1,356,169	\$	1,601,004
Culture and Recreation			664,371		664,371
Health and Welfare		516,245			516,245
Economic Development		26,301			26,301
Public Safety		12,017			12,017
Public Works		2,302,013	3,024,478		5,326,491
Capital Projects					
Education		2,693			2,693
Debt Service		197,236		2,518,478	2,518,478
Community Development			3,111,619		3,308,855
Committed:					
General Government		31,629			31,629
Culture and Recreation					
Health and Welfare		32,603			32,603
Public Safety		8,546			8,546
Public Works		223,473			223,473
Community Development		136,147			136,147
Education		12,286			12,286
Assigned:					
General Government	18,050				18,050
Culture and Recreation					
Health and Welfare					
Public Safety					
Public Works					
Education					
Unassigned	640,583				640,583
Total Fund Balance (Deficit)	\$ 658,633	\$ 3,746,024	\$ 8,156,637	\$ 2,518,478	\$ 15,079,772

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

14. 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.

15. 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, 2011, 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.

C. Other Commitments:

At June 30 2011, the general fund had commitments of approximately \$18,050 for executory purchase orders or contracts that will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2011:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this statement are effective for the fiscal year commencing after June 15, 2012.
- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

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

17. SUBSEQUENT EVENTS

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,100,040	\$ 2,100,040	\$ 1,763,158	\$ (336,882)
Municipal license tax	1,058,000	1,058,000	1,182,801	124,801
Municipal sales and use tax	900,000	900,000	761,175	(138,825)
Licenses, permits and other local taxes	348,944	348,944	574,601	225,657
Charges for service	3,000	3,000	3,804	804
Intergovernmental	5,969,880	5,969,880	6,018,523	48,643
Rent of property	90,280	90,280	104,380	14,100
Fines and forfeitures	2,000	2,000	8,798	6,798
Interest	125,000	125,000	486,851	361,851
Miscellaneous	199,300	199,300	196,584	(2,716)
Total revenues	<u>10,796,444</u>	<u>10,796,444</u>	<u>11,100,675</u>	<u>304,231</u>
Budget carryover (1)	774,750	774,750	774,750	-
Total revenues after carryover	<u>11,571,194</u>	<u>11,571,194</u>	<u>11,875,425</u>	<u>304,231</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$ 5,825,049	\$ 5,794,256	\$ 5,528,044	\$ 266,212
Public safety	690,363	635,308	607,700	27,610
Public works	3,248,183	3,338,677	3,092,721	245,956
Health and welfare	855,656	842,388	796,853	45,535
Culture and recreation	495,273	493,759	475,051	18,708
Education	128,192	69,497	59,349	10,148
Urban development	38,853	37,768	31,431	6,337
Operating transfer to other funds	289,625	359,541	206,031	153,510
Total expenditures, encumbrances and other financing uses	<u>11,571,194</u>	<u>11,571,194</u>	<u>10,797,180</u>	<u>774,016</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>1,078,245</u>	<u>1,078,245</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 11,875,425
Differences-budget to USGAAP:				
Budget carryover				<u>(774,750)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 11,100,675</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 10,797,180
Differences-budget to USGAAP:				
Non-budgeted expenditures				243,483
Operating transfer out to other funds				-
Prior year encumbrances recorded as current year expenditures for USGAAP basis				18,050
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(18,050)</u>
Total expenditures and other financial uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$11,040,663</u>

(1) Represents fund balance carried over from prior year

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2011

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, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

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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, 2011, and have issued our report thereon dated February 22, 2012. 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.

Compliance

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 that are 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 22, 2012.

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

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 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 #2586985 was affixed
to the original report
San Juan, Puerto Rico
February 22, 2012



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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 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, 2011. 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 our 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, 2011. 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.



CPA Gil Alberto Ortiz Cabrera
License 1332
Stamp #2586986 was affixed
to the original report
San Juan, Puerto Rico
February 22, 2012



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

SCHEDULE OF FEDERAL EXPENDITURES AWARDS

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Section 8 Housing Choice Voucher	14.871		\$ 953,416
Direct Program:			
Supportive Housing Program	14.235		90,164
Direct Program:			
Homeless Prevention and Rapid Re-housing - Recovery Act Funded	14.262		190,576
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Community Development Block Grants - State's Program	14.228		<u>1,496,202</u>
Total U.S. Department of Housing and Urban Development:			<u>2,730,358</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.600		<u>102,517</u>
Total U.S. Department of Transportation			<u>102,517</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico- Family Department:			
Child Care and Development Block Grant	93.575	Not Available	222,181
Pass-through the Commonwealth of Puerto Rico- Family Department:			
ARRA -Child Care and Development Block Grant	93.713	Not Available	14,500
Pass-through the Commonwealth of Puerto Rico- Family Department:			
Promoting Safe and Stable Families -Family Preservation Grant	93.556	Not Available	<u>8,013</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Total U.S. Department of Health and Human Services			<u>244,694</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico—Office of Governor Authorized Representative:			
Disaster Grant - Public Assistance	97.036		3,420
Disaster Grant - Public Assistance	97.036		<u>13,075</u>
Total US Federal Emergency Management Agency			<u>16,495</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico—Department of Justice			
Recovery Act - Edward Byrne Memorial Justice Assistance Program	16.804	Not Available	<u>76,726</u>
Total U.S. Department of Justice			<u>76,726</u>
U.S. DEPARTMENT OF ENERGY:			
Pass-through the Commonwealth of Puerto Rico—Infrastructure Finance Authority (AFI):			
Energy Efficiency and Conservation Block Grant Program - Recovery Act Funded	81.128		<u>25,000</u>
Total U.S. Department of Energy			<u>25,000</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Rural Housing Preservation Grant	10.433		<u>48,643</u>
Total U.S. Department of Agriculture			<u>48,643</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$3,244,433</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES AWARDS

YEAR ENDED JUNE 30, 2011

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:

<u>Description</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$3,244,433	\$3,244,433
Non - federal programs Expenditures	1,807,745	1,807,745
Total expenditures in the fund financial statements	<u>\$5,052,178</u>	<u>\$5,052,178</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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:.....

0

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
14.262	Homelessness (HPRP)
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 PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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. No Federal Award Findings and Questioned Costs were detected.