

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

MUNICIPIO DE OROCOVIS
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008

UNIVERSIDAD DE PUERTO RICO

Call 109-163

09 JAN 21 AM 8:29
RECIBIDO
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2008

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)

TABLE OF CONTENTS

	Pages
PART I – Financial:	
Independent Auditors' Report	2- 3
Management's Discussion and Analysis	4-13
Basic Financial Statements:	
Governmental-Wide Statements:	
Statement of Net Assets	14
Statement of Activities	15
Governmental Funds Statements:	
Balance Sheet	16-17
Statement of Revenues, Expenditures and Changes in Fund Balances	18-19
Notes to the Basic Financial Statements	20-32
Required Supplementary Information:	
Budgetary Comparison Schedule – General Funds	33
Note to Required Supplementary Information	34
PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:	
Schedule of Expenditures of Federal Awards	36-37
Notes to Schedule of Expenditures of Federal Awards	38
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	41-42
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	44-49
Schedule of Prior Audits' Findings and Questioned Costs	50

PART I
FINANCIAL



201 Gautier Benítez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 746-1185 / 746-1370
Fax: (787) 746-0525
cpadiazmartinez@hotmail.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Orocovis, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2008, 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 basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provide 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 the **Municipality**, as of June 30, 2008, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2008 on our consideration of the **Municipality's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13, and 33 and 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



INDEPENDENT AUDITORS' REPORT

Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CPA Diaz-Martinez, PSC

CPA Díaz-Martínez, PSC

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2010

Caguas, Puerto Rico

December 24, 2008



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

As management of the Municipality of Orocovis (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 14).

HIGHLIGHTS

Financial Highlights

- The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$24.1 millions (net assets).
- As of June 30, 2008, the Municipality's General Fund (the primary operating fund) reported a superavit of \$52,127, a decrease of \$99,876 in comparison with the prior year.
- The Municipality's activities expenses show an increase of \$181 thousand in comparison with prior year and revenues show an increase of \$833 thousand. The results of activities for fiscal year 2007-08 produced an increase of net assets of \$2.7 million.
- The total cost of the Municipality's mayor programs (Head Start and SBGP) amounted to \$8 millions and \$7.9 millions during fiscal year 2007-08 and 2006-07, respectively. This represented an increase of \$0.1 million (or 0.5%).
- The investment in capital assets for this year is \$21.2 million representing an increase of \$7.1 million (or 33%) in comparison with prior year.
- Loans principal payments were \$228,000, decreasing long-term debt. The balance due for compensated absences decreased by \$310,637 during this fiscal year.
- Resources available for appropriation were \$501,346 more than budgeted for the General Fund.

Municipality Highlights

- The Municipality completed the \$1.5 million Cultural Center (Juan Cartagena Martínez) permanent improvements initiative which will significantly enhance existing cultural facilities for its citizens.
- The Municipality continued the construction of a Child's City (Parque del Niño) and will continue building it in the next fiscal year. These facilities will provide educational and recreational activities to children of low-income families.
- The Municipality began the construction of a Race Track.

USING THIS ANNUAL REPORT

The new financial statement's focus (implemented in fiscal year 2002-03) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Government-wide Financial Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the *Statement of Net Assets* – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall health of the Municipality. The second statement – the *Statement of Activities* – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements reports as governmental activities the Municipality's basic services such as public safety, public works, health and sanitation, culture and recreation, solid waste disposal, human services and welfare, and community development; education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

Fund Financial Statements

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements can be found on pages 20 through 32.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2008 and 2007:

Commonwealth of Puerto Rico Municipality of Orocovis Statement of Net Assets As of June 30,		
	2008	2007
Current and non-current assets	\$ 10,181,579	\$ 9,659,305
Capital assets (as Restated)	22,603,526	20,768,003
Total Assets	\$ 32,785,105	\$ 30,427,308
Current Liabilities	2,564,169	1,594,653
Deferred Revenues	410,449	569,718
Long-Term Liabilities	5,681,910	5,895,682
Total Liabilities	8,656,528	8,060,053
Net Assets:		
Investment in capital assets, Net of related debt	21,195,182	19,315,392
Restricted (as Restated)	5,942,913	6,724,152
Unrestricted	(3,009,538)	(3,672,289)
Total Net Assets	\$ 24,128,557	\$ 22,367,255

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 1.9% with respect to prior year as restated. The most significant changes were an increase in investment in capital assets of \$1,879,790 and a decrease in Unrestricted (Deficit) of \$662,751.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$21,195,182; total capital assets (\$27,768,264) less accumulated depreciation (\$5,164,738) and less any related outstanding debt (\$1,408,344) used to acquire or construct those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must

be provided from other sources, because capital assets are not generally liquidated for the purposes of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

As of June 30, 2008 the Municipality presented unrestricted (deficit) net assets of (\$3,009,538). This balance was affected by long term obligations such as compensated absences \$1,914,5888 and other debts for the amount of \$1,299,298 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

Table 2

Changes in Net Assets
(in thousands)

	Governmental Activities	
	2007	2008
REVENUES		
Program Revenues:		
Charges for services	\$ 558	\$ 506
Operating grants and contributions	12,012	11,710
General Revenues:		
Property taxes	1,174	1,124
Volume of Business Tax	382	422
Intergovernmental	6,611	6,427
Sales Tax	0	903
Construction Tax	78	200
Others	891	868
Total Revenues	<u>21,706</u>	<u>22,160</u>
EXPENSES		
Program Expenses:		
General government	\$ 5,588	6,696
Public safety	551	555
Public works	2,489	2,855
Culture and Recreation	745	839
Sanitation	589	581
Human Services and welfare	1,080	1,311
Urban Development	2,081	772
Public Instruction	6,659	6,594
Interest on long-term debt	198	196
Total Expenses	<u>19,980</u>	<u>20,399</u>
Increase (decrease) in Net Assets	<u>\$ 1,726</u>	<u>\$ 1,761</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

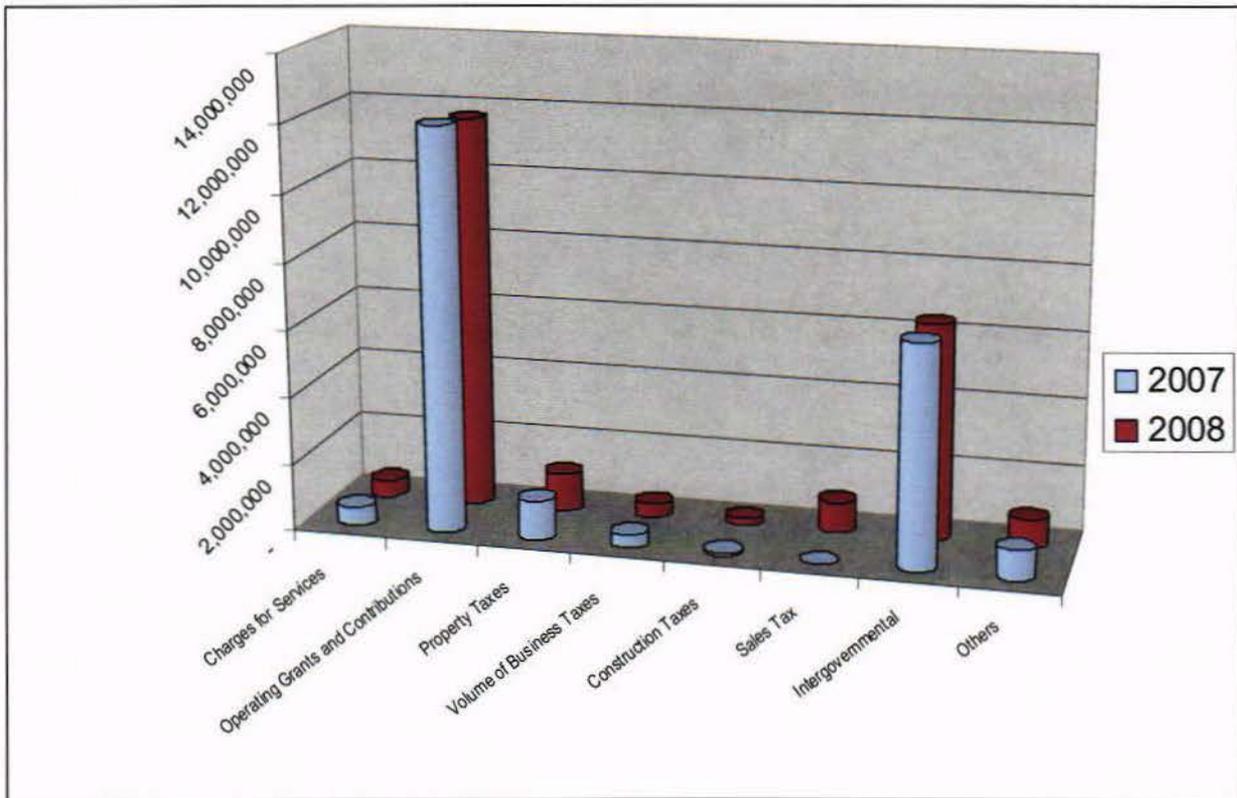
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

FIGURE 1

Revenues by Source – Governmental Activities
Fiscal Year ended June 30, 2007 and 2008



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

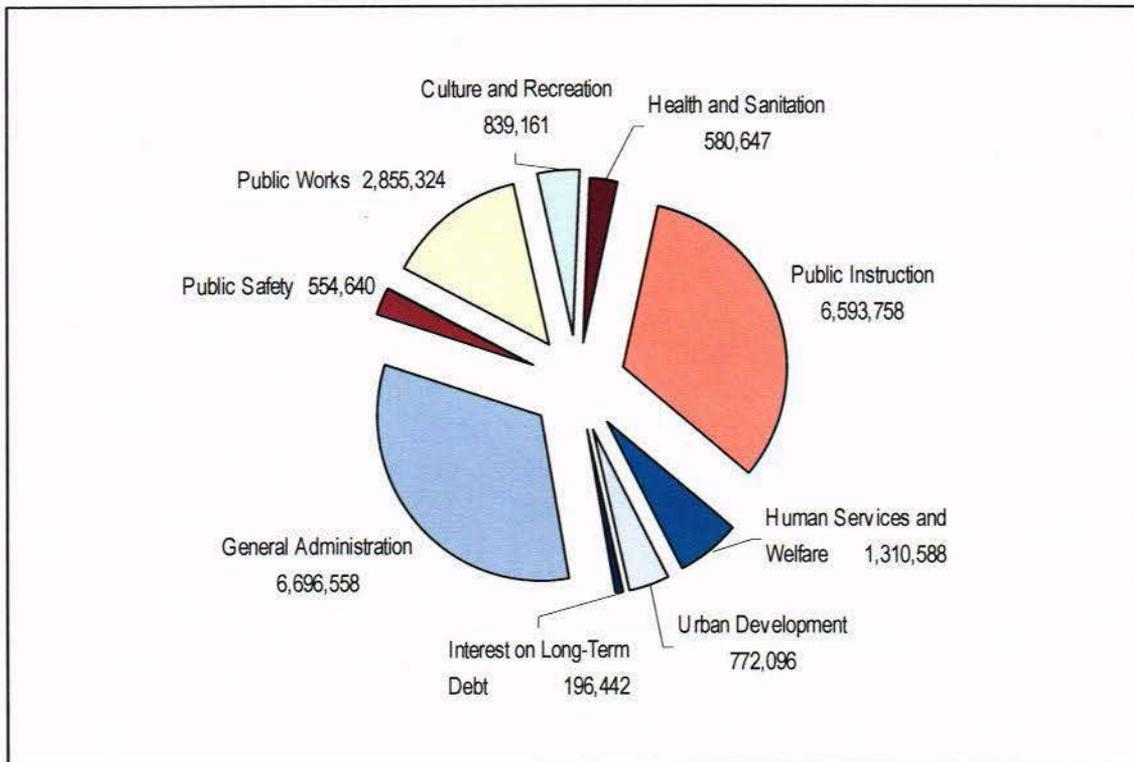
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2008-2007:

FIGURE 2

Expenses by Function (in dollars)



Approximately 52.8% of the Municipality's revenues came from grants and contributions, 29% from intergovernmental, 5.7% from property taxes, and 13.08% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 32.8%, 32.3% for public instruction, public works with 14.0%, human services and welfare with 5.7%, culture and recreation with 4.1%, and urban development with 3.8. Program revenues of the Municipality covered 59% of total expenses.

With respect to prior year, revenues increased by approximately \$453,000, due to the sales tax imposed during this fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The following table focuses on the cost of each of the Municipality's largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

Table 3

Net Cost of Municipality's Governmental Activities
Fiscal Years Ended June 30,

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
General Administration	\$ 6,696,558	\$ 5,588,291	\$ 3,583,790	\$ 4,342,262
Public Safety	554,640	550,569	533,780	399,641
Public Works	2,855,324	2,489,364	2,655,934	166,173
Culture and Recreation	839,161	744,886	839,161	744,886
Health and Sanitation	580,647	589,026	580,647	589,026
Public Instruction	6,593,758	6,659,027	(107,122)	(120,231)
Human Services and Welfare	1,310,588	1,080,493	217,865	(112,638)
Urban Development	772,096	2,081,188	(318,549)	1,203,757
Others	196,442	198,106	196,442	198,106
	<u>\$ 20,399,214</u>	<u>\$ 19,980,950</u>	<u>\$ 8,181,948</u>	<u>\$ 7,410,982</u>

Some of the cost of governmental activities in 2008 was paid by those who directly benefited from the programs and other governments and organizations that subsidized certain programs with grants and contributions. The \$8,181,948 net cost of services was substantially covered by other general revenues including property, volume of business license taxes, the new enacted sales tax and intergovernmental.

THE MUNICIPALITY'S FUNDS

Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$1.4 million which is lower last year's total of \$0.1 million. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$99,876 decrease from a fund balance superavit of \$152,003 in the previous year to a superavit of \$52,127 at the end of the current year. The primary reason for the Governmental fund's deficit in the current year was an excess of expenditures over revenues from the General Fund funds of \$197,681.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$1.4 million (see page 33 for budget to actual comparisons). The current year operations resulted in a \$0.5 million net loss, for budgetary purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the Municipality had \$ 22.6 million invested in a variety of capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$ 7.1 million or 33% from the end of last year.

**Table 4
Capital Assets at Year-end
(Net of Depreciation)**

	<u>2008</u>	<u>2007</u>
Non-depreciable assets:		
Land	\$ 6,798,834	\$ 6,798,834
Construction in Progress	3,151,153	2,709,900
Depreciable assets:		
Buildings	7,620,502	6,597,794
Equipment and Vehicles	415,309	459,178
Furniture and Fixtures	111,332	150,054
Heavy Equipment	1,288,377	1,014,781
Infrastructure	<u>3,218,019</u>	<u>3,037,462</u>
Totals	<u>\$ 22,603,526</u>	<u>\$ 20,768,003</u>

Debt Outstanding

As of year-end, the Municipality had \$5.7 million in debts (bonds and other long-term debts) outstanding compared to the \$5.9 million last year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Table 5
Outstanding Debt at Year-end**

	<u>2008</u>	<u>2007</u>
General and Special Obligations	\$ 2,350,024	\$ 2,468,024
Law Number 146-MRCC	84,149	80,783
Law Number 42-MRCC	978,139	961,010
LIMS-MRCC	29,150	23,320
Deferred Credits	-	3,562
Employees Retirement Adm	55,265	33,094
Claims and Judgments	-	9,000
Christmas Bonus	173,730	188,529
Compensated Absences	2,225,225	1,914,588
Totals	<u>\$ 5,895,682</u>	<u>\$ 5,681,910</u>

Principal payments of \$228 thousand were made by the Municipality during the current year.

The Municipality levies an annual special tax of 1.50% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$1.3 million is below the legal limitation. More detailed information about the Municipality's long-term debts is presented in note 8 of the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The Mayor and the Municipal Assembly are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The Municipality has maintained a higher than average population growth compared to that of Puerto Rico for the period from 1990 to 2000, averaging annual gains of 12.7%. The average family income of families in the Municipality has been one of the lowest of any of the municipalities of Puerto Rico, and during the period from 1990 to 2000 the growth rate for average family income in the Municipality was comparable to that of Puerto Rico, averaging annual gains of 44.5%. The Municipality has one reasonable unemployment rate compared to all municipalities in Puerto Rico. As of October 2005 the unemployment rate of the Municipality averaged 15.7% as compared to 10.6% in Puerto Rico (Source Department of Labor and Human Resources of the Commonwealth of Puerto Rico).

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2007-08. Amounts available for appropriations (revenues) in the General Fund Budget are \$ 9.6 million, an increase of 12% over the 2007-08 original budget of \$ 8.5 million. Property taxes and other local charges for services, licenses and permits are expected to lead this increase. The Municipality will use the increase in revenues to finance programs we currently offer and to account for the deficit effect on the resources available to expend. Budgeted expenditures are expected to rise slightly below of revenue increases.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of fiscal year 2008-09.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 2nd floor of the City Hall, State Road #156, P.O. Box 2106, Orocovis, Puerto Rico 00720.

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash	\$ 660,840
Cash with Fiscal Agent	1,672,962
Receivables (Net):	
Federal Grants	6,549,588
Due from Government Units	1,192,556
Sales Tax	80,594
Property Taxes	<u>3,358</u>
Deferred Charges	<u>21,681</u>
Capital Assets:	
Land, Improvement and Construction in Progress	9,949,987
Other Capital Assets [Net of Depreciation]	<u>12,653,539</u>
Total Capital Assets	<u>22,603,526</u>
TOTAL ASSETS	<u>32,785,105</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	2,540,030
Accrued Interest	24,139
Deferred Revenues	410,449
Long-Term Liabilities:	
Due Within One Year	1,855,213
Due in More than One Year	<u>3,826,697</u>
TOTAL LIABILITIES	<u>8,656,528</u>
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt	21,195,182
Restricted for:	
Capital Projects	119,905
Head Start	4,399,889
Debt Service	569,695
Community Development Projects	853,424
Unrestricted (Deficit)	<u>(3,009,538)</u>
TOTAL NET ASSETS	<u>\$ 24,128,557</u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues (See Next Page)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Assembly	\$ 1,047,423	\$ -	\$ -	\$ -	\$ (1,047,423)
General Government	5,649,135	506,735	2,606,033	-	(2,536,367)
Public Safety	554,640	-	20,860	-	(533,780)
Public Works	2,855,324	-	199,390	-	(2,655,934)
Culture and Recreation	839,161	-	-	-	(839,161)
Health and Sanitation	424,947	-	-	-	(424,947)
Solid Waste Disposal	155,700	-	-	-	(155,700)
Public Instruction	6,593,758	-	6,700,880	-	107,122
Human Services and Welfare	1,310,588	-	1,092,723	-	(217,865)
Urban Development	772,096	-	1,090,645	-	318,549
Interest on Long-Term Debt	196,442	-	-	-	(196,442)
Total Governmental Activities	\$ 20,399,214	\$ 506,735	\$ 11,710,531	\$ -	(8,181,948)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					918,791
Property Taxes, levied for Debt Service					204,835
Volume of Business Taxes					422,447
Construction Taxes					200,121
Sales Taxes					902,774
Intergovernmental					6,426,733
Rent					43,220
Miscellaneous					824,349
Total General Revenues					9,943,270
CHANGES IN NET ASSETS					
Net Assets – Beginning of Year, As Restated					22,367,255
NET ASSETS – ENDING OF YEAR					\$ 24,128,577

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2008

	GENERAL FUND	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash	\$ -	\$ 245,655	\$ 6	\$ -	\$ 415,179	\$ 660,840
Cash with Fiscal Agent	-	-	-	420,476	1,252,486	1,672,962
Receivables:						
Property Taxes	-	-	-	3,358	-	3,358
Sales Taxes	51,488	-	-	-	29,106	80,594
Federal Grants	-	4,820,773	1,291,038	-	437,777	6,549,588
Due from Other Funds	1,437,631	31,923	-	-	70,411	1,539,965
Due from Governmental Units	598,500	-	-	-	594,056	1,192,556
Total Assets	\$ 2,087,619	\$ 5,098,351	\$ 1,291,044	\$ 423,834	\$ 2,799,015	\$ 11,699,863
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Account Payable	\$ 1,298,408	\$ 233,942	\$ 308,232	\$ -	\$ 607,798	\$ 2,448,380
Bond and Notes	-	-	-	110,000	-	110,000
Accrued Interest	-	-	-	24,139	-	24,139
Due to Governmental Units	91,650	-	-	-	-	91,650
Due to Other Funds	102,334	-	129,388	-	1,308,243	1,539,965
Deferred Revenues:						
Volume of Business Tax	325,249	-	-	-	-	325,249
Intergovernmental	217,851	-	-	-	-	217,851
Federal Grants	-	4,623,874	832,299	-	85,200	5,541,373
Total Liabilities	2,035,492	4,857,816	1,269,919	134,139	2,001,241	10,298,607
Fund Balances:						
Reserve For:						
Encumbrances	765,181	-	-	-	-	765,181
Debt Service	-	-	-	289,695	-	289,695
Unreserved	(713,054)	240,535	21,125	-	797,774	346,380
Total Fund Balances	52,127	240,535	21,125	289,695	797,774	1,401,256
Total Liabilities and Fund Balances	\$ 2,087,619	\$ 5,098,351	\$ 1,291,044	\$ 423,834	\$ 2,799,015	\$ 11,699,863

See accompanying Notes to Basic Financial Statements.

Total Fund Balances – Government Funds (Page 16)	\$ 1,401,256
Amount reported for Governmental Activities in the Statement of Net Assets (Page 14) 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	\$ 9,949,987
Depreciable Capital Assets	14,271,827
Infrastructure Assets	3,546,450
Accumulated Depreciation	<u>(5,164,738)</u>
Total Capital Assets	22,603,526
Other Assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Deferred Charges	21,681
Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:	
SBGP	832,299
Municipal Revenue Collection Center	123,587
Christmas Bonus Reimbursement	94,264
Head Start Program	<u>4,623,874</u>
Total Deferred Revenues	5,674,024
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General Obligation Bonds	(1,095,000)
Special Obligation Bonds	(1,263,024)
Deferred Credits	(3,562)
Law Number 146-MRCC	(80,783)
Law Number 42-MRCC	(961,010)
LIMS-MRCC	(23,320)
Employees Retirement Adm	(33,094)
Claims and Judgments	(9,000)
Christmas Bonus	(188,529)
Compensated Absences	<u>(1,914,588)</u>
Total Long-Term Liabilities	<u>(5,571,910)</u>
Total Net Assets of Governmental Activities (Page 14)	<u>\$ 24,128,577</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	GENERAL FUND	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	\$ 918,791	\$ -	\$ -	\$ 204,835	\$ -	\$ 1,123,626
Volume of Business Taxes	422,447	-	-	-	-	422,447
Sales Taxes	584,711	-	-	-	318,063	902,774
Federal Assistances	-	6,762,257	1,296,596	-	1,292,113	9,350,966
Intergovernmental	7,053,491	-	-	-	2,626,893	9,680,384
Licenses and Permits	200,121	-	-	-	-	200,121
Rent	43,220	-	-	-	-	43,220
Miscellaneous	824,349	-	-	-	-	824,349
Total Revenues	10,047,130	6,762,257	1,296,596	204,835	4,237,069	22,547,887
EXPENDITURES:						
Current:						
Mayor and Municipal Legislature	1,047,423	-	-	-	-	1,047,423
General Government	4,102,240	-	-	-	1,576,788	5,679,028
Public Safety	520,808	-	-	-	-	520,808
Public Works	2,383,184	-	229,677	-	-	2,612,861
Culture and Recreation	664,362	-	-	-	-	664,362
Health and Sanitation	419,308	-	-	-	-	419,308
Solid Waste Disposal	155,700	-	-	-	-	155,700
Public Instruction	-	6,762,257	-	-	-	6,762,257
Human Services and Welfare	226,236	-	-	-	1,084,352	1,310,588
Urban Development	285,580	-	230,457	-	256,059	772,096
Capital Outlay	72,854	-	836,462	-	1,490,074	2,399,390
Debt Service:						
Bond Issue Costs	-	-	-	1,899	-	1,899
Principal	-	-	-	228,325	-	228,325
Interest and Other Charges	-	-	-	196,442	-	196,442
Total Expenditures	9,877,695	6,762,257	1,296,596	426,666	4,407,273	22,770,487
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	169,435	-	-	(221,831)	(170,204)	(222,600)
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	310,000	310,000
Transfers – In	-	-	-	230,595	40,615	271,210
Transfers – Out	(269,311)	-	-	-	(1,899)	(271,210)
Total Other Financing Sources and Uses	(269,311)	-	-	230,595	348,716	310,000
Net Change in Fund Balance	(99,876)	-	-	8,764	178,512	87,400
Fund Balance – beginning, AS Restated	152,003	240,535	21,125	280,931	619,262	1,313,856
FUND BALANCE – ENDING	\$ 52,127	\$ 240,535	\$ 21,125	\$ 289,695	\$ 797,774	\$ 1,401,256

0403
5/1/09

Net Change in Fund Balances – Government Funds (Page 18) **\$ 87,400**

Amount reported for Governmental Activities in the Statement of Activities (Page 15)
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of
Activities the cost of those assets is allocated over their estimated useful lives and reported
as depreciation expense. In the current period, these amounts are:

Capital Assets	\$ 2,399,390	
Depreciation Expense	<u>(563,867)</u>	
Excess of Capital Assets over Depreciation Expense		1,835,523

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

Head Start	(61,377)	
Municipal Revenue Collection Center	(127,422)	
Christmas Bonus	7,399	
SBGP	<u>(205,951)</u>	(387,351)

Bonds proceeds provide current financial resources to governmental funds, but issuing debt
increase Long-Term Liabilities in the Statement of Net Assets. In the current period,
proceeds received was (310,000)

Governmental Fund Report the effect of Bond Issuance Costs as Expenditure when Debt is first
issued, and amortized in the Statement of Activities. This amounts is the effect of these differences:

Bond Issuance Costs	1,899	
Amortization of Deferred Charges	<u>(3,483)</u>	(1,584)

Repayment of long-term principal is expenditure in the governmental funds, but issuing debt
reduced Long-Term Liabilities in the Statement of Net Assets. In the current period
repayments were 228,325

Some expenses reported in the Statement of Activities do not require the use of current
financial resouces and therefore are not reported as expenditures in governmental funds.

These activities consist of:

Increase in Claims and Judgments	(9,000)	
Increase in Christmas Bonus	(14,799)	
Decrease in Compensated Absence	310,637	
Decrease in Employees Retirement Administration	<u>22,171</u>	
Total Additional Expenses		<u>309,009</u>

Change in Net Assets of Governmental Activities (Page 15) **\$ 1,761,322**

NOTE 1 FINANCIAL REPORTING ENTITY

The **Municipality of Orocovis, Puerto Rico (Municipality)** was founded in the year 1825, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units. The following is a summary of the more significant of such policies.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

GASBS No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the **Municipality's** balance; and discrete – presentation of the component unit's financial data in column separate from the **Municipality's** balances and transactions.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental and business type activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

NOTE 2 SUMMARIES OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Business-type activities are not reported seen the **Municipality** don't have such activities.

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the **Municipality's** governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Assets* presents the reporting entities' assets and liabilities, with the difference reported as net assets.

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

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) 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*.

Governmental Fund Financial Statements

The fund financial statements (the *Balance Sheet*, the *Statement of Revenues, Expenditures, and Changes in Fund Balance*) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the **Municipality's** actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and separate explanation for each differences.

The **Municipality** reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Funds Financial Statements

The governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purposes, the **Municipality** considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, volume of business taxes, sale taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the **Municipality**.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the **Municipality**

may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the **Municipality** on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. The exceptions to this general rule are the compensated absences and claims and judgments, if any, that are recorded only when payment is due.

The **Municipality** reports the following major fund:

General Fund – This is the general operating fund of the **Municipality**. It is used to account for all financial resources, except those required to be accounted for in another fund.

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

SBGP Fund – This is the fund used to account for all the transactions of the State Block Grant Program. The primary objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

The non-major funds are combined in a single column in the fund financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the governmental-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board*.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

continue

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the Budgetary Comparison – General Fund Schedule:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the Budgetary Comparison – General Fund Schedule reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Interfund transactions of the General Fund are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

D. Cash and Investment, and Cash with Fiscal Agent

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

continue

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

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. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with law.

E. 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." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Receivable are shown net of an allowances for uncollectible, which are determined upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Commonwealth of Puerto Rico, from grant and contributions from Federal Government, and state appropriations.

Advance 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.

F. Inventories

The **Municipality** used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

G. Capital Assets

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The government reports infrastructure assets on a

network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the governmental-wide financial statements to the extent the **Municipality** capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset acquired under capital leases is included in depreciation. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	50-60
Improvement Other Than Buildings	45
Infrastructure	50
Vehicles and Furniture	5-10
Machinery and Equipment	10-15

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

H. Compensated Absences

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality's** employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria:

1. The **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.

continue

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 8 on page 28).

I. Risk Financing

The **Municipality** carries commercial insurance to cover property and 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. Also, principal officials of the **Municipality** are covered under various surety bonds. Cost of insurance allocated to the **Municipality** and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2008 amounted to approximately \$178,440. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$350,224 for workers compensation insurance covering all municipal employees for the same period.

J. Long-Term Obligations, Bonds Issuance Costs, Premiums and Discounts

The liabilities reported in the government-wide financial statements include the general and special obligation bonds, long-term notes, other long-term liabilities (e.g., vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties, and landfill postclosure care costs. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Fund Equity/Net Assets

Reservations of Fund Equity

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

- *Reserve for Encumbrances* – Encumbrances are recorded as reservations of fund balances because they do not constitute expenditures or liabilities. In certain other governmental funds, this accounting treatment results in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year where it is applied against estimated revenues in the year the commitments are expended.
- *Reserve for Debt Service* – The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent years.
- *Reserve for Capital Projects* – Certain assets, primarily cash and investments, and cash with fiscal agent to be invested in capital projects.
- *Reserve for Other Purposes* – Certain assets, primarily cash and investments of grants and contributions that are authorized to be carried over and expended in the ensuing year.

Restricted Net Assets

The governmental-wide and proprietary funds financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – These consists of capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and amortization, and the outstanding balances for debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

L. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

continue

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

Intra-Entity Transactions – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

N. Use of Estimates

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

O. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncement that does not apply to the **Municipality**:

GASB Statement No. 49, *Pollution Remediation*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. This Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

GASB Statement No. 51, *Intangible Assets*. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This Statement is effective for financial statements for periods beginning after June 15, 2008.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

NOTE 3 CASH AND CASH WITH FISCAL AGENT

The **Municipality's** cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$250,000 in each bank, and the excess by collateral provided by the banks and held by the Puerto Rico Treasury Department pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

continue

NOTE 3 CASH AND CASH WITH FISCAL AGENT (continuation)

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the **Municipality** invested its funds in short-term certificates of deposit. As June 30, 2008 there are not certificates of deposit outstanding.

Custodial Credit Risk Related to Deposits

Custodial credit risk for cash and investments is the risk that, in the event of the failure of a depository financial institution, the **Municipality** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the **Municipality** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, among others.

The **Municipality** maintains its cash deposits in commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the **Municipality** are held by the Secretary of Treasury of Puerto Rico in the **Municipality's** name. The following tables presented below discloses the level of custody risk assumed by the **Municipality** based upon how its deposits were insured or secured with collateral at June 30, 2008:

- Category 1: Insured or collateralized with securities held by the Secretary of Treasury agent's in the **Municipality's** name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or its agents in the **Municipality's** name.
- Category 3: Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent by not in the **Municipality's** name.

	CATEGORY			CARRYING AMOUNT	BANK BALANCE
	1	2	3		
Deposit in					
Commercial Banks	\$ 660,840	\$ -	\$ -	\$ 660,840	\$ 585,261
Deposit in					
Governmental Bank	-	-	1,672,962	1,672,962	1,672,962
Total	\$ 660,840	\$ -	\$ 1,672,962	\$ 2,333,802	\$ 2,258,223
Reconciliation to Government-Wide Statement of Net Assets:					
	UNRESTRICTED	RESTRICTED	TOTAL		
Carrying amount of deposits					
in Commercial Banks	\$ -	\$ 660,840	\$ 660,840		
Carrying amount of deposit					
in Governmental Bank	-	1,672,962	1,672,962		
Total	\$ -	\$ 2,333,802	\$ 2,333,802		

As of June 30, 2008, the **Municipality's** custodial credit risk was approximately \$1.7 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

NOTE 4 DEFERRED REVENUES

Governmental funds report *deferred revenues* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	UNAVAILABLE	UNEARNED
Volume of Business Taxes	\$ -	\$ 325,249
Other Major Funds	-	85,200
Head Start	4,623,874	-
SBGP	832,299	-
Intergovernmental	217,851	-
Total Deferred/Unearned Revenue	\$ 5,674,024	\$ 410,449

NOTE 5 INTERFUND TRANSFER AND BALANCES

A. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$ 228,696	Debt payments
Other Governmental Funds	Debt Service Fund	1,899	Bond Issue Costs
General Fund	Other Governmental Funds	40,615	Matching requirements
	Total	\$ 271,210	

NOTE 6 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2008, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	AMOUNT
Water and Sewer Authority	\$ 74,413
Department of Labor and Human Resources	10,533
General Administration Services	1,572
Aeela	241
Others Agencies	4,891
Total Due to Governmental Units	\$ 91,650

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2008 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
Head Start	General Fund	\$ 31,923
General Fund	SBGP	129,388
Other Fund	General Fund	70,411
General Fund	Other Fund	1,308,243
Total		\$ 1,539,965

NOTE 7 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2008 was as follows:

DESCRIPTION	BALANCE JULY 1, 2007	ADJUSTMENTS	INCREASES	DECREASES	BALANCE JUNE 30, 2008
Non-Depreciable Capital Assets:					
Land	\$ 1,539,878	\$ 5,258,956	\$ -	\$ -	\$ 6,798,834
Construction in Progress	2,709,900	-	1,651,782	(1,210,529)	3,151,153
Total Non-Depreciable Capital Assets	4,249,778	5,258,956	1,651,782	(1,210,529)	9,949,987
Depreciable Capital Assets:					
Buildings and Buildings Improvements	8,801,200	-	1,210,529	-	10,011,729
Equipment and Vehicles	1,226,597	-	110,472	-	1,337,069
Furniture and Fixtures	384,686	-	-	-	384,686
Heavy Equipment	2,139,067	-	399,276	-	2,538,343
Infrastructure	3,308,590	-	237,860	-	3,546,450
Total Depreciable Capital Assets	15,860,140	-	1,958,137	-	17,818,277
Less Accumulated Depreciation:					
Buildings and Buildings Improvements	(2,203,406)	-	(187,821)	-	(2,391,227)
Equipment and Vehicles	(767,419)	-	(154,341)	-	(921,760)
Furniture and Fixtures	(234,632)	-	(38,722)	-	(273,354)
Heavy Equipment	(1,124,286)	-	(125,680)	-	(1,249,966)
Infrastructure	(271,128)	-	(57,303)	-	(328,431)
Total Accumulated Depreciation	(4,600,871)	-	(563,867)	-	(5,164,738)
Total Depreciable Capital Assets (Net)	11,259,269	-	1,394,270	-	12,653,539
CAPITAL ASSETS, NET	\$ 15,509,047	\$ 5,258,956	\$ 3,046,052	\$ (1,210,529)	\$ 22,603,526

NOTE 7 CAPITAL ASSETS (continuation)

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
General Government	\$ 95,857
Public Safety	33,832
Public Works and Transportation	242,463
Culture and Recreation	174,799
Health and Welfare	5,639
Education	11,277
Total Depreciation Expenses	\$ 563,867

Employees Retirement Administration

The Municipality should repay the debt with the Employees Retirement Administration during the next two years.

Claims and Judgments

This amount represents the amount accrued for possible claims arising from litigations.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2008 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2008.

NOTE 8 GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 9).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2008:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
General Obligation Bonds:			
\$441,000, Series 1990 - General Construction	2016	5.00%	\$ 185,000
\$215,000, Series 2003 - Purchase of Equipment	2009	4.10%	75,000
\$440,000, Series 2006 - Purchase of Equipment	2011	5.00%	270,000
\$685,000, Series 2007 - General Construction	2031	7.00%	675,000
Total General Obligation Bonds			1,205,000
Special Obligation Bonds:			
\$1,220,000, Series 2002 - Purchase of Equipment	2016	8.00%	825,000
\$310,000, Series 2008 - Purchase of Equipment	2015	7.50%	310,000
\$128,024, Series 2007 - General Construction	Undetermine ¹	Undetermine ¹	128,024
Total Special Obligation Bonds			1,263,024
Total General and Special Obligation Bonds			\$ 2,468,024

¹ These terms will be determined by the loan grantor upon completion of the construction activities.

B. Other Long-Term Debts

Borrowing from MRCC

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original amount of debt is \$84,149 to be paid during 25 years plus annual interest of 6.22%.

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The original amount of debt is \$1,049,742 to be paid during 30 years plus annual interest of 6.1875%.

On November 28, 2001, the Municipality entered into a repayment agreement with the GDB and MRCC to pay for the proportional debt to cover the Land Information Management System (LIMS), system established by MRCC with the capacity to maintaining cadastre and photos of all real property of Puerto Rico. The original debt was \$55,763 to be paid during 10 years plus annual interest of 5.95%.

Deferred Credits

This amount represents the unpaid balance of the bond issue cost of the following obligation: \$310,000, Series 2008 special obligation bonds.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2007	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2008
Law Number 146-MRCC	\$ 84,149	\$ -	\$ (3,366)	\$ 80,783
Law Number 42-MRCC	978,139	-	(17,129)	961,010
LIMS-MRCC	29,150	-	(5,830)	23,320
Deferred Credits	-	3,562	-	3,562
Employees Retirement Adm	55,265	-	(22,171)	33,094
Claims and Judgments	-	9,000	-	9,000
Christmas Bonus	173,730	188,529	(173,730)	188,529
Compensated Absences	2,225,225	-	(310,637)	1,914,588
TOTAL	\$ 3,545,658	\$ 201,091	\$ (532,863)	\$ 3,213,886

continue

NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

C. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2008:

DESCRIPTION	BALANCE		RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2008	AMOUNT'S DUE WITHIN ONE YEAR	AMOUNT'S DUE AFTER NEXT YEAR
	JULY 1, 2007	NEW ISSUES				
General	\$ 1,327,000	\$ -	\$ (122,000)	\$ 1,205,000	\$ 133,000	\$ 1,072,000
Special	1,023,024	310,000	(70,000)	1,263,024	75,000	1,188,024
Others Debts	3,545,658	201,091	(532,863)	3,213,886	1,647,213	1,566,673
TOTAL	\$ 5,895,682	\$ 511,091	\$ (724,863)	\$ 5,681,910	\$ 1,855,213	\$ 3,826,697

The annual requirements to amortize the long-term debts outstanding as of June 30, 2008 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds		Other Long-Term Obligations		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2009	\$ 133,000	\$ 57,174	\$ 75,000	\$ 73,913	\$ 1,647,213	\$ 65,507	\$ 1,855,213	\$ 196,594
2010	139,000	62,927	130,000	81,563	29,271	63,780	298,271	208,270
2011	110,000	57,034	135,000	71,387	30,882	61,959	275,882	190,380
2012	111,000	51,542	145,000	60,625	28,855	60,038	284,855	172,205
2013	43,000	47,575	160,000	10,710	26,597	58,347	229,597	116,632
2014-2018	149,000	203,250	490,000	109,213	156,801	264,779	795,801	577,242
2019-2023	135,000	159,425	-	-	206,658	209,687	341,658	369,112
2024-2028	180,000	105,000	-	-	274,274	136,837	454,274	241,837
2029-2033	205,000	30,275	-	-	813,335	41,098	1,018,335	71,373
Undetermine	-	-	128,024	-	-	-	128,024	-
TOTAL	\$ 1,205,000	\$ 774,202	\$ 1,263,024	\$ 407,411	\$ 3,213,886	\$ 962,032	\$ 5,681,910	\$ 2,143,645

D. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The **Municipality** believes it is in compliance with all significant limitations and restrictions.

NOTE 9 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 10).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 8). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 10 PROPERTY TAXES

The MRCC is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The personal property tax is self assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the **Municipality** of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the **Municipality** based on the initial estimated collections. The MRCC 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 MRCC remits to the **Municipality** property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2008 resulted in a receivable of \$123,587.

NOTE 10 PROPERTY TAXES (continuation)

The tax rate for fiscal year 2008 is 8.53% for real property and 6.53% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the **Municipality**. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through 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. The remaining portion belonging to the **Municipality** of 1.50% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 13). The **Municipality** hasn't reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the **Municipality**, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Treasury Department to the **Municipality** was frozen as of January 1, 1992.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The MRCC advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** exonerates impositions and payment of property contributions, for a 15-year term, to all natural or judicial persons that comply with the following conditions: new creation and continuing operation of an industry, business or company of private investment that has a payroll of 100 employees or more; within the geographic limits of Orocovis and during the whole previous natural year of the payment date of the property tax contributions. In addition, all industries, businesses or companies that comply with the conditions mentioned above, would receive a credit on the Volume of Business Tax equivalent to the salaries paid. This credit will apply to the contributive year subsequent to the creation or maintenance of a payroll in excess of 100 or more employees. The remaining credit, if any, can not be carried forward to subsequent contributive years and can not be reimbursed to the taxpayer.

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 11 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 12 SALES TAXES

Municipality imposes a Sales and Usage Tax of 1.5% (1% to the **Municipality** and .5% to the Puerto Rico Department of Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Tax, are required to file a monthly Sales and Use Tax Return Form, no later than the 20th of the following month from the month being reported.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2008, but pertaining to the current year period.

NOTE 13 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 14 PENSION PLAN

Employees of **Municipality** participate in the Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth of Puerto Rico under the Act No. 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

continue

NOTE 14 PENSION PLAN (continuation)

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The **Municipality** contributes to the system 9.275% of the participating employee's salaries.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, 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. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new savings program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

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 the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

If at 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.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or more	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period. (employees started working after April 1, 1990).

Disability retirement benefits are available to members for occupational and non-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 service.

The **Municipality** follows the provisions of GASB Statement No. 27, *Accounting for Pensions Pension by State and Local Governmental Employers*, which requires employers that participate in cost-sharing multi-employer defined-benefits plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.

The total pension expenditures/expenses recorded in the category of administration for the Fiscal Year Ended June 30, 2005 through 2008 was as follow:

	FISCAL YEAR	LAW NO.447	SYSTEM 2000
The Employee's Retirement System of the Commonwealth of Puerto Rico provides additional information of the ERS. They issue a	2008	\$ 123,921	\$ 56,027
	2007	129,464	57,673
	2006	131,049	56,882
	2005	131,904	47,421
	2004	129,285	31,728

publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

NOTE 15 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of one (1) lawsuit related to personnel matter and back pay, to which the legal counsel informed a loss of \$9,000.

B. FEDERAL GRANTS

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 16 NET ASSETS/FUND BALANCE RESTATEMENTS

The following reconciles the June 30, 2007 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2007.

NET ASSETS RESTATED	
Net Assets, as Previously Reported, At June 30, 2007	\$ 17,179,508
Adjustment to Fixed Assets	5,258,956
Adjustment to Head Start Revenues	<u>(1,209)</u>
Beginning Net Assets, as Restated, At July 1, 2007	<u>\$ 22,367,255</u>

The following reconciles the June 30, 2007 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2007 for the Head Start Fund:

FUND BALANCE RESTATED HEAD STARS FUND	
Fund Balance, as Previously Reported, At June 30, 2007	\$ 385,897
Adjustment to Head Start Revenues	<u>(145,362)</u>
Beginning Fund Balance, as Restated, At July 1, 2007	<u>\$ 240,535</u>

END OF NOTES

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
For the Fiscal Year Ended June 30, 2008

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget
BUDGETARY FUND BALANCE, JULY 1, 2007	\$ (442,561)	\$ (442,561)	\$ (442,561)	\$ -
Resources (Inflows):				
Property Taxes	918,791	918,791	918,791	-
Volume of Business Taxes	291,000	408,957	422,447	13,490
Sale Taxes	100,050	579,156	584,711	5,555
Intergovernmental Revenues	7,064,362	7,113,273	7,053,491	(59,782)
License and Permits	55,700	130,139	200,121	69,982
Rent	40,000	56,750	43,220	(13,530)
Miscellaneous	188,500	819,080	824,349	5,269
Total Resources (Inflows)	8,658,403	10,026,146	10,047,130	20,984
Amounts Available for Appropriation	8,215,842	9,583,585	9,604,569	20,984
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	945,140	1,074,098	1,238,882	(164,784)
General Government	3,547,652	3,470,047	3,732,773	(262,726)
Public Safety	593,351	524,766	522,954	1,812
Public Works	1,642,350	2,401,344	2,495,143	(93,799)
Culture and Recreation	568,331	679,014	672,774	6,240
Health and Sanitation	410,309	480,729	480,565	164
Solid Waste Disposal	220,000	188,000	188,000	-
Human Services and Welfare	219,383	249,740	238,093	11,647
Urban Development	80,000	526,214	526,214	-
Capital Outlays	131,817	162,883	162,783	100
Transfers to Other Funds	300,070	269,311	269,311	-
Total Charges to Appropriations	8,658,403	10,026,146	10,527,492	(501,346)
BUDGETARY FUND BALANCE, JUNE 30, 2008	\$ (442,561)	\$ (442,561)	\$ (922,923)	\$ (480,362)

See accompanying Notes to Required Supplementary Information.

NOTE A Explanation of Differences Between Gudgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 31)	\$ 9,604,569
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>442,561</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 10,047,130</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 31)	\$ 10,527,492
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(765,181)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	384,695
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(269,311)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 9,877,695</u>

NOTE B Explanation of Differences Between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2008	\$ (922,923)
Timing Differences:	
Non-budgetary Items	590,355
Change in Encumbrances	<u>(380,486)</u>
Unrestricted Fund Balance, June 30, 2008	<u>\$ (713,054)</u>

END OF THIS SECTION

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child and Adult Care Food Program	10.558	02-CH-9944	<u>\$ 842,821</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers.....	14.871		230,581
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP).....	14.228	N/AV	1,296,596
Pass-Through State Department of Family:			
Emergency Shelter Grant (ESG)	14.231	N/AV	<u>10,950</u>
Total U.S. Department of Housing and Urban Development			<u>1,538,127</u>
U.S. Department of Transportation:			
Pass-Through Puerto Rico Highway and Transportation Authority:			
Highway Planning and Construction	20.205	N/AV	272,749
Formula Grants for Other than Urbanized Areas	20.509	N/AV	54,618
Pass-Through Puerto Rico Traffic Safety Commission:			
State and Community Highway Safety.....	20.600	N/AV	<u>20,818</u>
Total U.S. Department of Transportation.....			<u>348,185</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through State – Office of Governor Authorized Representative (GAR):			
Public Assistant Grants	83.544	N/AV	<u>42,484</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>2,771,617</u>

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$2,771,617</u>
U.S. Department of Health and Human Services:			
Pass-Through Instituto Socio-Económico, Inc.:			
Community Services Block Grant	93.569	N/AV	27,355
Pass-Through Administration for the Childhood Care and Integral Development:			
Head Start Program	93.600	02-CH-9944	<u>6,762,257</u>
Total U. S. Department of Health and Human Services			<u>6,789,612</u>
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Office for Public Security:			
Law Enforcement Terrorism Prevention Program	97.074	N/AV	<u>25,505</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$9,586,734</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Orocovis, Puerto Rico**. 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*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The **Municipality** in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



201 Gautier Benítez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 746-1185 / 746-1370
Fax: (787) 746-0525
cpdiazmartinez@hotmail.com

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Orocovis, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2008, which collectively comprise the **Municipality's** basic financial statements and has issued our report thereon dated December 24, 2008. The report on was qualified because we were unable to obtain sufficient evidence to certain infrastructure capital assets in governmental activities required by accounting principle generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

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

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

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



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

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality's** basic 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Díaz-Martínez, PSC
CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2010

Caguas, Puerto Rico
December 24, 2008





201 Gautier Benítez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 746-1185 / 746-1370
Fax: (787) 746-0525
cpadiazmartinez@hotmail.com

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

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

Compliance

We have audited the compliance of the **Municipality of Orocovis, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. The **Municipality's** major federal programs are identified in the summary of auditors' result 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's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2008. However, the results of our auditing procedures disclosed other 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 as items 2008-III-01 through 2008-III-04.

Internal Control Over Compliance

The management of the **Municipality** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality's** internal control over compliance with 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's** internal control over compliance.



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

Page 2

A *control deficiency* is the **Municipality's** internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the **Municipality's** ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the **Municipality's** internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-III-01 to be significant deficiency.

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

Our consideration of the 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 the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The **Municipality's** response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the **Municipality's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC

CPA Diaz-Martinez, PSC

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2010

Caguas, Puerto Rico

December 24, 2008



PART III
FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

● Significant deficiency (ies) identified? Yes None Reported

● Material weakness(es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

● Significant deficiency (ies) identified? Yes None Reported

● Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	State Block Grant Program
14.871	Section 8 Housing Choice Vouchers
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2008-III-01
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE- OFFICE OF THE COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENTS	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
CRITERIA	Code of Federal Conduct, 24 CFR, Subpart C, Section 85.36 (i) (1-13) stated that the sub-grantee's contract must contain provision in paragraph (i) of this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CONDITION	In our contract clauses test, we observed that some contracts used by the Municipality do not comply with the Energy Policy & Conservation Act as required by the program regulation.
CAUSE	Federal Program and Finance Departments don't have a contract clause checklist, in order to assure that all contracts comply with the requirements established in the regulations.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36 (i) (1-13) of OMB Common Rules. This could affect future claims against contractors because if any clauses are not present at the time of agreement, the Municipality would not have any legal rights to make contractors comply with requirements or provisions not specified in the contract.
RECOMMENDATION	We recommend management to update the contract model according with the federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	All Federal Programs contracts will be analyzed and all necessary clauses will be added to fulfill with all Federal and Local Regulations.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2008-III-02
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENTS	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (f) (7) states that the Municipality must maintain records to document the basis for the Municipality's determination that the rent to owner is a reasonable rent (initially and during the term of the HAP contract).
CONDITION	During our Participant Files Test, we noticed that tenant files did not include any document which evidenced the determination that the rent being paid to the owner of the housing unit is reasonable in accordance with the Municipality's administrative plan initially, and during the contract term.
CAUSE	Municipality did not implement any procedures in order to document the reasonableness of the amount of rent being paid to the housing unit's owner.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (f) (7).
RECOMMENDATION	We recommend management to document the basis for the determination that the rent paid to the housing unit's owner is a reasonable one (initially and during the term of the HAP contract).
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality will require to the Section 8 Housing Inspector to evaluate the rent payment at the private sector nearer to where a house will be rented under Section 8 program to determining the amount of rent that the program will pay to the owner. This procedure will be established for one year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2008-III-03
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENTS	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CRITERIA	Code of Federal Conduct, 24 CFR, Subpart B, Section 982.54 (c) stated that the Municipality must administer the program in accordance with the Municipality's administrative plan.
CONDITION	During our Housing Quality Standards Inspections Test we noted that ten (10) inspections forms were not initiated on each page, nor signed at the end by the Section 8 Housing Inspector, the owner, and the tenant, as required in the Administrative Plan.
CAUSE	Municipality does not have adequate controls over the Housing Quality Standards Inspections in order to assure that the inspection forms provide with evidence and history of the inspections.
EFFECT	The absence of the initials, signatures, and date in the inspection forms makes questionable the authenticity of the inspection and that an annual inspection is being made.
RECOMMENDATION	We recommend management to require that each of the three persons present at the inspection initiates each page of the inspection form and sign it at the end.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality as a norm of internal control will required the housing Inspector that, at the moment of the inspection he will ask for the initialization and signature of the inspection form by the owners and tenants.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2008-III-04
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENTS	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CRITERIA	Code of Federal Conduct, 24 CFR, Subpart E, Section 982.204 (b) states that the waiting list that the Municipality maintains must contain the following information for each applicant listed: applicant name, family unit size, date and time of application, qualification for any ranking preference or local preference and racial or ethnic designation of the head of household.
CONDITION	During our waiting list test, we noted that the list did not contain the required information to assure that the selection of new tenants admitted to the program where in accordance with the Public Housing Agency tenant selection policies. There was no evidence that a particular list order was followed in selecting participants to the program.
CAUSE	Municipality did not establish controls to ensure that the waiting list is being managed according to regulation in order to guarantee the correct selection of applicants.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart E, Section 982.204 (b), and could be admitting participants to the program at any given time where another participant (with a higher priority status) might have been selected if the established protocols were followed.
RECOMMENDATION	We recommend management to implement the necessary procedures in order to comply with program regulations, and ensure that the process of selection and admission of participants is performed according to said regulations and requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality will prepare the Administrative Plan that include the situations where preferential treatment will be given to some people; also the information of the solicitant will be kept up dated including the Waiting List.

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2007

Finding Number 07-III-01 **Allowable Costs/Cost Principles**
Deficiencies in the files of the participants of the Housing Rehabilitation Assistance Program.

CFDA Number 14.228

Questioned Cost None

Auditee Comments Systems and procedures were corrected.

Finding Number 07-III-02 **Allowable Costs/Cost Principles**
Deposits of the SBGP funds were made in the Municipality's operational bank account.

CFDA Number 14.228

Questioned Cost None

Auditee Comments Systems and procedures were corrected.

Finding Number 07-III-03 **Cash Management**
Days elapsed between the deposits and disbursements were excessive.

CFDA Number 14.228

Questioned Cost None

Auditee Comments Systems and procedures were corrected.

Finding Number 07-III-04 **Equipment and Real Property Management**
Transfer of equipment without previous authorization of the pass through agency.

CFDA Number 14.228

Questioned Cost None

Auditee Comments Systems and procedures were corrected.

(2) Audit Findings not Corrected or Partially Corrected:

NONE

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE