

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

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

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

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2010

(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, 2010
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)

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PART I
FINANCIAL



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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 **Municipality of Orocovis, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2010, which collectively comprise **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of **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, 2010, and the respective changes in financial position thereof 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 29, 2010 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 43 and 44, 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 performed for the purpose of forming our 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 OMB Circular A-133 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 Díaz-Martínez, PSC

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
December 29, 2010

2547793



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010. 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 \$26.2 million (net assets).
- As of June 30, 2010, the **Municipality's** General Fund (the primary operating fund) reported a deficit of \$586,761, an increase of \$687,333 in comparison with the prior year.
- The **Municipality's** activities expenses show a decrease of \$24,269 thousand in comparison with prior year and revenues show an increase of \$610,697 thousand. The results of activities for fiscal year 2009-10 produced an increase of net assets of \$1.3 million.
- The total cost of the **Municipality's** mayor programs (Head Start and SBGP) amounted to \$10.2 million and \$9 million during fiscal year 2009-10 and 2008-09, respectively. This represented an increase of \$1.2 million (or 12%).
- The investment in capital assets, net of related debt for this year is \$24.3 million representing an increase of \$1 million (or 4%) in comparison with prior year.
- Loans principal payments were \$534,000, decreasing long-term debt. The balance due for compensated absences increased by \$438,216 during this fiscal year.
- Resources available for appropriation were \$342,213 more than budgeted for the General Fund.

Municipality Highlights

- The "Pista Atlética Vaqueria" was finished during the year with a total investment of \$2.7 million, including \$1 million during fiscal year 2009-10.
- The "Parque Urbano Pueblo" project continued with an investment of \$816 thousand during the year.

USING THIS ANNUAL REPORT

The financial statement's focus 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, 2010

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 42.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

	2010	2009
Current and Non-Current Assets	\$ 10,701,479	\$ 11,446,389
Capital Assets	28,637,295	26,436,316
Total Assets	39,338,774	37,882,705
Current Liabilities	3,373,148	3,205,722
Deferred Revenues	666,028	619,816
Long-Term Liabilities	9,052,347	9,186,746
Total Liabilities	13,091,523	13,012,284
Net Assets:		
Investment in Capital Assets, Net of Related Debt	24,319,540	23,252,022
Restricted (As Restated)	4,310,033	4,660,898
Unrestricted (Deficit)	(2,382,322)	(3,042,499)
Total Net Assets	\$ 26,247,251	\$ 24,870,421

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

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 5% with respect to prior year. The most significant changes were an increase in Investment in Capital Assets of \$2,200,979 and a decrease in Restricted Net Assets of \$350,865.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$24,319,540; total capital assets (\$35,002,728) less accumulated depreciation (\$6,365,433) and less any related outstanding debt (\$4,317,755) 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, 2010

As of June 30, 2010 the **Municipality** presented unrestricted (deficit) net assets of (\$2,382,322). This balance was affected by long term obligations such as compensated absences \$2,628,933 and other debts for the amount of \$1,187,390 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.

Commonwealth of Puerto Rico Municipality of Orocovis, Puerto Rico Changes in Net Assets For Fiscal Years Ending June 30,		
	2010	2009
Revenues:		
Program Revenues:		
Changes for Services	\$ 1,000,000	\$ 615,000
Operating Grants and Contributions	12,407,003	12,224,390
Capital Grants and Contributions	-	-
General Revenues:		
Property Taxes	1,161,941	1,128,248
Volume of Business Taxes	391,867	443,626
Sales and Usage Taxes	779,485	754,457
Licenses and Permits	123,244	83,582
Intergovernmental	7,099,371	6,945,741
Other General Revenues	851,563	1,008,733
Total Revenues	<u>23,814,474</u>	<u>23,203,777</u>
Expenses:		
General Administration	6,280,753	6,983,728
Public Safety	620,407	570,574
Public Works	2,440,586	3,081,908
Culture and Recreation	807,967	791,150
Health and Sanitation	435,983	421,467
Solid Wasted Disposal	144,875	154,275
Human Services and Welfare	3,507,599	7,823,705
Urban Development	7,929,933	2,404,764
Loss on Disposition of Assets	-	-
Interest Costs	269,541	230,342
Total Expenses	<u>22,437,644</u>	<u>22,461,913</u>
Changes in Net Assets	1,376,830	741,864
Net Assets-Beginning, as Restated	24,870,421	24,128,557
Net Assets-Ending	<u>\$ 26,247,251</u>	<u>\$ 24,870,421</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

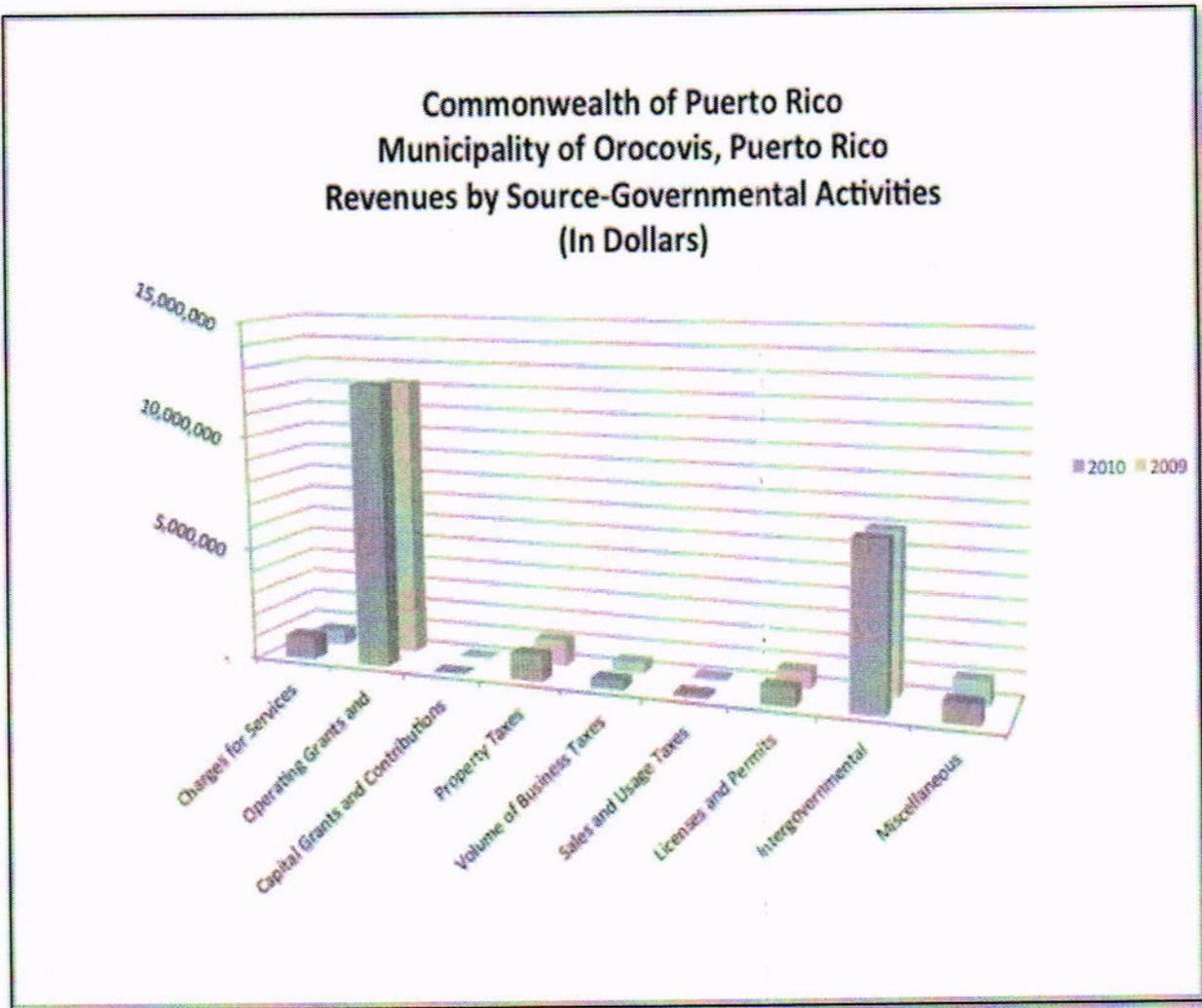
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2009 and 2010



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

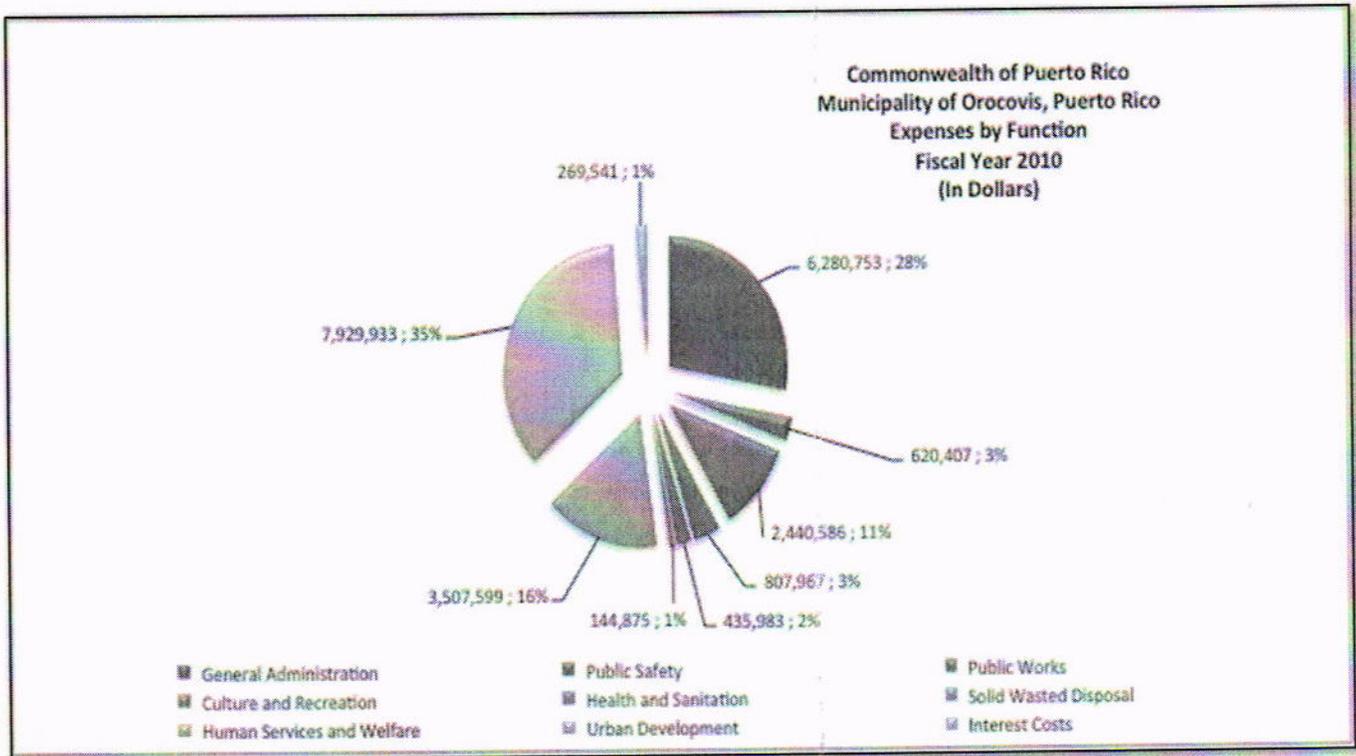
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2010-2009:

FIGURE 2

Expenses by Function



Approximately 52.1% of the **Municipality's** revenues came from grants and contributions, 30% from intergovernmental, 4.9% from property taxes, and 13% from other sources. The **Municipality's** expenses cover a range of services. The largest expenses are general administration with 28%, 35.3% for urban development, human services and welfare with 15.6%, public works with 10.9%, and culture and recreation with 3.6%. Program revenues of the **Municipality** covered 23% of total expenses.

With respect to prior year, revenues increased by approximately \$610,697, due to operating grants and contributions received 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, 2010

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):

Commonwealth of Puerto Rico Municipality of Orocovis, Puerto Rico Met Cost of Municipality's Governmental Activities For Fiscal Years Ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General Administration	\$ 6,280,753	\$ 6,983,728	\$ 2,179,144	\$ 3,077,684
Public Safety	620,407	570,574	620,407	495,992
Public Works	2,440,586	3,081,908	2,440,586	2,967,867
Culture and Recreation	807,967	791,150	807,967	791,150
Solid Waste Disposal	144,875	154,275	144,875	154,275
Human Services and Welfare	3,507,599	7,823,705	1,426,843	83,388
Urban Development	7,929,933	2,404,764	705,295	1,400,358
Others	705,524	651,809	705,524	651,809
Total	\$ 22,437,644	\$ 22,461,913	\$ 9,030,641	\$ 9,622,523

Those who directly benefited from the programs and other governments and organizations that subsidized certain programs with grants and contributions paid some of the cost of governmental activities in 2010. Other general revenues including property, volume of business license taxes, and the sales tax and intergovernmental revenues substantially covered the \$9,030,641 net cost of services.

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 pages 16 and 17) reported a combined fund balance of \$1.3 million, which decreased from last year's total by \$696 thousands. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$687,333 increase from a fund balance deficit of \$1,274,094 in the previous year to a deficit of \$586,761 at the end of the current year. The primary reason for the Governmental fund's reduction of the deficit in the current year was an excess of revenues over expenditures from the General Fund funds of \$913,182.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Budgetary Highlights

During the current year, the Municipal Legislature revised the **Municipality's** budget several times increasing the original budget by \$940,935 (see page 43 for budget to actual comparisons). The current year operations resulted in a \$650,850 net loss, for budgetary purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the **Municipality** had \$28.6 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 \$2.2 million or 8% from the end of last year.

Commonwealth of Puerto Rico Municipality of Orocovis, Puerto Rico Capital Assets, net As of June 30,		
	Governmental Activities	
	2010	2009
Non-depreciable assets:		
Land	\$ 6,798,834	\$ 6,798,834
Construction in Progress	5,569,340	5,720,321
Depreciable assets:		
Buildings	10,480,005	7,919,859
Equipment and Vehicles	264,224	349,845
Furniture and Fixtures	183,138	226,221
Heavy Equipment	1,102,192	1,144,406
Infrastructure	4,239,562	4,276,830
Total	\$ 28,637,295	\$ 26,436,316

Debt Outstanding

As of year-end, the **Municipality** had \$9 million in debts (bonds and other long-term debts) outstanding compared to the \$9.2 million last year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Table 5
Outstanding Debt at Year-end

Commonwealth of Puerto Rico Municipality of Orocovis, Puerto Rico Outstanding Long-Term Debt As of June 30,		
	Governmental Activities	
	2010	2009
General and Special Obligations	\$ 5,236,024	\$ 5,770,024
Law No. 42-MRCC	923,455	942,805
Law No. 146-MRCC	74,051	77,416
LIMS - MRCC	10,582	17,138
Christmas Bonus	172,586	181,930
Deferred Charges	6,716	6,716
Compensated Absences	2,628,933	2,190,717
Total	\$ 9,052,347	\$ 9,186,746

The Municipality made principal payments of \$534 thousand 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 \$1.5 million is below the legal limitation. More detailed information about the

Municipality's long-term debts is presented in note 9 to 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 2011 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, 2010

The **Municipality** has a higher unemployment rate compared to all municipalities in Puerto Rico. As of December 2009 the unemployment rate of the **Municipality** averaged 30.8% as compared to 16.9% in Puerto Rico (Source Department of Labor and Human Resources of the Commonwealth of Puerto Rico). Also, approximately 61.2% of all families are below the poverty level.

The above-mentioned factors, among others, were taken into account when adopting the **Municipality's** budget for fiscal year 2010-11. Amounts available for appropriations (revenues) in the General Fund Budget are \$10.2 million, an increase of 9% over the 2009-10 original budget of \$9.3 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 2010-11.

AMERICAN RECOVERY AND REINVESTMENT ACT

The Municipality received the following federal awards from the American Recovery and Reinvestment Act during fiscal year 2009-2010:

Federal Program	CFDA Number	Total Award	Total Expended
Community Development Block Grants/ States Program (SBGP) and Non Entitlements Grants in Hawaii (State Administered Small Cities Program (Cluster)	14.255	\$245,000	\$21,400
Homelessness Prevention and Rapid Re-Housing Program	14.257	314,176	37,029
Head Start Program (Cluster)	93.708	479,822	348,920
Energy Efficiency and Conservation Block Grant	81.128	160,000	14,000
Total		\$1,198,998	\$421,349

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	\$ 1,876,603
Cash with Fiscal Agent	2,007,301
Receivables (Net):	
Federal Grants	6,403,692
Due from Government Units	270,552
Sales and Usage Taxes	84,522
Property Taxes	<u>28,702</u>
Total Current Assets	<u>10,671,372</u>
Deferred Charges	<u>30,107</u>
Capital Assets:	
Land, Improvement and Construction in Progress	12,368,174
Other Capital Assets [Net of Depreciation]	<u>16,269,121</u>
Total Capital Assets	<u>28,637,295</u>
TOTAL ASSETS	<u>39,338,774</u>

LIABILITIES:

Accounts Payable and Accrued Expenses	3,239,172
Accrued Interest	13,053
Due to Governmental Units	120,923
Deferred Revenues	666,028
Long-Term Liabilities:	
Due Within One Year	2,605,605
Due in More than One Year	<u>6,446,742</u>
TOTAL LIABILITIES	<u>13,091,523</u>

NET ASSETS:

Investment in Capital Assets, Net of Related Debt	24,319,540
Restricted for:	
Capital Projects	250,000
Head Start	2,674,703
Debt Service	723,511
Community Development Projects	661,819
Unrestricted (Deficit)	<u>(2,382,322)</u>
TOTAL NET ASSETS	<u>\$ 26,247,251</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OROCOVIS, PUERTO RICO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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	\$ 758,487	\$ -	\$ -	\$ -	\$ (758,487)
General Government	5,522,266	1,000,000	3,101,609	-	(1,420,657)
Public Safety	620,407	-	-	-	(620,407)
Public Works	2,440,586	-	-	-	(2,440,586)
Culture and Recreation	807,967	-	-	-	(807,967)
Health and Sanitation	435,983	-	-	-	(435,983)
Solid Waste Disposal	144,875	-	-	-	(144,875)
Public Instruction	1,232,864	-	925,986	-	(306,878)
Human Services and Welfare	2,274,735	-	1,154,770	-	(1,119,965)
Urban Development	7,929,933	-	7,224,638	-	(705,295)
Interest on Long-Term Debt	269,541	-	-	-	(269,541)
Total Governmental Activities	\$ 22,437,644	\$ 1,000,000	\$ 12,407,003	\$ -	(9,030,641)

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	922,052
Property Taxes, levied for Debt Service	239,889
Volume of Business Taxes	391,867
Sales and Usage Taxes	779,485
Construction Excise Taxes	123,244
Intergovernmental	7,099,371
Rent	50,150
Miscellaneous	801,413
Total General Revenues	<u>10,407,471</u>

CHANGES IN NET ASSETS

1,376,830

Net Assets – Beginning of Year

24,870,421

NET ASSETS – ENDING OF YEAR

\$ 26,247,251

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2010

	GENERAL FUND	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash	\$ 2,005	\$ 219,963	\$ 4,236	\$ -	\$ 1,650,399	\$ 1,876,603
Cash with Fiscal Agent	-	-	-	950,863	1,056,438	2,007,301
Receivables:						
Property Taxes	-	-	-	28,702	-	28,702
Sales and Usage Taxes	52,523	-	-	31,999	-	84,522
Federal Grants	-	5,187,418	979,081	-	237,193	6,403,692
Due from Other Funds	1,984,411	31,126	-	-	-	2,015,537
Due from Governmental Units	86,293	-	-	-	184,259	270,552
Total Assets	\$ 2,125,232	\$ 5,438,507	\$ 983,317	\$ 1,011,564	\$ 3,128,289	\$ 12,686,909
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Account Payable	\$ 2,184,763	\$ 401,993	\$ 254,396	\$ -	\$ 398,020	\$ 3,239,172
Bond and Notes	-	-	-	100,000	-	100,000
Accrued Interest	-	-	-	13,053	-	13,053
Due to Governmental Units	120,923	-	-	-	-	120,923
Due to Other Funds	31,126	172,843	67,102	-	1,744,466	2,015,537
Deferred Revenues:						
Volume of Business Tax	288,888	-	-	-	-	288,888
Commonwealth of Puerto Rico	86,293	-	-	-	-	86,293
Federal Grants	-	4,595,297	529,593	-	377,140	5,502,030
Total Liabilities	2,711,993	5,170,133	851,091	113,053	2,519,626	11,365,896
Fund Balances:						
Reserve For:						
Encumbrances	413,200	-	-	-	-	413,200
Debt Service	-	-	-	898,511	-	898,511
Capital Projects	-	-	-	-	502,970	502,970
Other Purposes	1,984,411	268,374	-	-	105,693	2,358,478
Unreserved (Deficit)	(2,984,372)	-	132,226	-	-	(2,852,146)
Total Fund Balances (Deficit)	(586,761)	268,374	132,226	898,511	608,663	1,321,013
Total Liabilities and Fund Balances	\$ 2,125,232	\$ 5,438,507	\$ 983,317	\$ 1,011,564	\$ 3,128,289	\$ 12,686,909

See accompanying Notes to Basic Financial Statements.

Total Fund Balances – Government Funds (Page 16) **\$ 1,321,013**

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	\$ 12,368,174	
Depreciable Capital Assets	17,920,251	
Infrastructure Assets	4,714,303	
Accumulated Depreciation	<u>(6,365,433)</u>	
Total Capital Assets		28,637,295

Other Assets used in governmental activities are not financial resources and therefore
are not reported in the funds:

Deferred Charges		30,107
------------------	--	--------

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	529,593	
Christmas Bonus Reimbursement	86,293	
Head Start Program	<u>4,595,297</u>	
Total Deferred Revenues		5,211,183

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	(1,473,000)	
Special Obligation Bonds	(3,663,024)	
Deferred Credits	(6,716)	
Law Number 146-MRCC	(74,051)	
Law Number 42-MRCC	(923,455)	
LIMS-MRCC	(10,582)	
Christmas Bonus	(172,586)	
Compensated Absences	<u>(2,628,933)</u>	
Total Long-Term Liabilities		(8,952,347)

Total Net Assets of Governmental Activities (Page 14) **\$ 26,247,251**

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, 2010

	GENERAL FUND	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	\$ 922,052	\$ -	\$ -	\$ 239,889	\$ -	\$ 1,161,941
Volume of Business Taxes	391,867	-	-	-	-	391,867
Sales and Usage Taxes	389,413	-	-	390,072	-	779,485
Federal Assistanes	-	7,549,704	907,553	-	1,198,491	9,655,748
Intergovernmental	8,104,043	-	-	-	2,829,104	10,933,147
Construction Excise Taxes	123,244	-	-	-	-	123,244
Rent	50,150	-	-	-	-	50,150
Miscellaneous	801,413	-	-	-	-	801,413
Total Revenues	10,782,182	7,549,704	907,553	629,961	4,027,595	23,896,995
EXPENDITURES:						
Current						
Mayor and Municipal Legislature	758,487	-	-	-	-	758,487
General Government	4,656,894	-	-	-	698,535	5,355,429
Public Safety	584,277	-	-	-	-	584,277
Public Works	1,952,082	-	229,571	-	-	2,181,653
Culture and Recreation	621,294	-	-	-	-	621,294
Health and Sanitation	435,983	-	-	-	-	435,983
Solid Waste Disposal	144,875	-	-	-	-	144,875
Public Instruction	-	7,548,672	-	-	-	7,548,672
Human Services and Welfare	236,539	-	-	-	990,303	1,226,842
Urban Development	455,946	-	629,218	-	1,189,571	2,274,735
Capital Outlay	22,623	-	-	-	2,780,526	2,803,149
Debt Service:						
Principal	-	-	-	388,271	-	388,271
Interest and Other Charges	-	-	-	269,541	-	269,541
Total Expenditures	9,869,000	7,548,672	858,789	657,812	5,658,935	24,593,208
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	913,182	1,032	48,764	(27,851)	(1,631,340)	(696,213)
OTHER FINANCING SOURCES (USES):						
Transfers – In	-	-	-	213,436	12,413	225,849
Transfers – Out	(225,849)	-	-	-	-	(225,849)
Total Other Financing Sources and Uses	(225,849)	-	-	213,436	12,413	-
Net Change in Fund Balance	687,333	1,032	48,764	185,585	(1,618,927)	(696,213)
Fund Balance (Deficit) – Beginning	(1,274,094)	267,342	83,462	712,926	2,227,590	2,017,226
FUND BALANCE (DEFICIT) – ENDING	\$ (586,761)	\$ 268,374	\$ 132,226	\$ 898,511	\$ 608,663	\$ 1,321,013

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances – Government Funds (Page 18) \$ (696,213)

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 Outlays	\$ 2,803,149	
Depreciation Expense	(602,170)	
Excess of Capital Outlays over Depreciation Expense		2,200,979

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	(325,066)	
Christmas Bonus	(4,672)	
SBGP	247,217	(82,521)

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	-	
Amortization of Deferred Charges	(4,814)	(4,814)

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

388,271

Some expenses reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental funds.
These activities consist of:

Decrease in Christmas Bonus	9,344	
Increase in Compensated Absence	(438,216)	
Total Additional Expenses		(428,872)

Change in Net Assets of Governmental Activities (Page 15) \$ 1,376,830

1. FINANCIAL REPORTING ENTITY

A. Organization

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 **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the **Municipality** is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable (blended component units), and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The primary government consists of all funds, departments, boards and agencies that are not legally separate from the **Municipality** and for which the **Municipality** is financial accountable.

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. Section 2600 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards* requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB Codification describes the criteria for determining which organizations, functions, and activities should be considered part of the **Municipality** for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the **Municipality's** ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the **Municipality**.

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 activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The basic financial statements of the **Municipality** have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units (USGAAP). The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental type.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The financial information of the **Municipality** is presented in this report as follows:

Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the **Municipality's** financial activities.

Government-wide Financial Statements (GWFS)

The GWFS (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For the 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.

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. Net assets are restricted when constraints are placed on them that are imposed by external parties or by laws or regulations. Designations solely imposed by the **Municipality's** management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the **Municipality's** policy is to use the restricted resources first.

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. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the **Municipality's** funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

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 (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the **Municipality's** actual experience conforms to the budgeted fiscal plan.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, 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.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The GWFS are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Subject to the additional rules and limitations detailed below, revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The **Municipality** groups its non-exchange transactions into the following four classes in the basic financial statements:

Derived Tax Revenues – in this revenue, which result from assessments that the **Municipality** places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

Imposed Non-exchange Revenues – in this revenue (such as property taxes and volume of business taxes), which result from assessments made by the **Municipality** on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and volume of business taxes are recognized as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government Mandated Non-exchange Transactions – in this revenue (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For part of the grants, the **Municipality** must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary Non-exchange Transactions – in this revenue (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government mandated non-exchange transactions discussed above.

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

Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

Governmental Funds Financial Statements

The GFFS 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 these purposes, the **Municipality** considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Significant revenues subject to accrual include federal grants and sales and usage taxes. Revenues that the **Municipality** earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2010, all revenues sources met this availability criterion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Property taxes, volume of business 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 Section N50 of the GASB Codification *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.

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

The **Municipality** generally accrues a governmental fund liability and expenditures (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying balance sheet – governmental funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-Term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds. Modifications to the accrual basis of accounting include:

- a. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2010, which are recorded as governmental fund liabilities of June 30, 2010 which is the date when resources were available in the debt service fund.
- b. Obligations from compensated absences and the estimated liability for municipal solid waste landfill post-closure care costs are recorded only when they mature (when payment is due).
- c. Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying *Statement of Net Assets*. Such liabilities are recorded in the governmental funds when they mature.
- d. Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

The **Municipality** reports the following major governmental funds:

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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 GGFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

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. 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. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

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.

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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 Schedule – General Fund 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.

During the year the **Municipality** adjusted the beginning Budgetary Fund Balance (Deficit) for the amount of \$1,118,883 reducing the deficit to \$1,274,094, for prior year encumbrances that was canceled and certain accrued liabilities included in the Budgetary Fund Balance and then the amounts are now available.

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. Assets, Liabilities, and Net Assets

1) Cash and Investment, and Cash with Fiscal Agent

The **Municipality's** cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The **Municipality** has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico*, issued by the GDB as promulgated by Law No. 113 of August 3, 1995. The Finance Director of the **Municipality**, follow the guidelines, 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 interest bearing commercial bank accounts are recognized as revenue in the General Fund. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

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 Government, deposit in the GDB 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 GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with law.

2) **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

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.

Receivables consist of all revenues earned but not collected at June 30, 2010. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) **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.

4) **Deferred Charges**

Deferred charges in the accompanying *Statement of Net Assets* consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

5) **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 GWFS. 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 **Municipality** 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The **Municipality** 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 GFFS to the extent the **Municipality** capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

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

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

Impaired capital assets that will no longer be used by the **Municipality**, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the **Municipality** are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

6) **Deferred and Unearned Revenues**

In the GWFS, deferred revenues arise only when the **Municipality** receives resources before it has a legal claim to them. In the GFFS, arises when one of the following situations occur: (1) potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period (unavailable revenue), and (2) the **Municipality** receives resources before it has a legal claim to them (unearned revenue).

7) **Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount**

The liabilities reported in the GWFS 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. 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 GFFS, 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. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

8) *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 at the current rate. 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; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with Section C60 of the GASB Codification, 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 using salary rates effective at June 30, 2010. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, 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.

9) *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 when the liability is incurred. The Long-Term Liabilities includes, when appropriate, 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.

10) *Accounting for Pension Costs*

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

11) Net Assets/Fund Balance

Net Assets

The GWFS and Proprietary Funds Financial Statements utilize a net assets presentation, which are categorized as follow:

- *Invested in Capital Assets, Net of Related Debt* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets. Net assets invested in capital assets, net of related debt is comprised of the following:

	<u>Governmental Activities</u>
Capital Assets, Net of Accumulated Depreciation	\$ 28,637,295
Outstanding Balance on Related Debt	(5,108,000)
Unspent Capital Debt Proceeds	<u>790,245</u>
Total Invested in Capital Assets, Net of Related Debt	<u>\$ 24,319,540</u>

- *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.

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.

Fund Balance

The GFFS 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* – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *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 under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- *Reserve for Other Purposes* – Certain assets, primarily cash of grants and contributions that are authorized to be carried over and expended in the ensuing year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Designations of fund balances are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the Municipality to designate the portion of fund balance set aside by the Municipal Legislature through the corresponding ordinance for future plans. The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance.

E. 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:

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.

F. 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, 2010 amounted to approximately \$368,491. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$159,957 for workers compensation insurance covering all municipal employees for the same period.

G. Use of Estimates

The preparation of the basic financial statements in conformity with USGAAP 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.

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2010:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011.

GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged.

3. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2010 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of \$3.9 million are deposits in commercial bank accounts and interest bearing accounts in GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Government. **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 Government laws.

Municipality follows the practice of pooling cash. At June 30, 2010, the pool cash account in interest bearing commercial banks accounts had a balance of \$1.9 million of which \$2,005 in the General Fund, \$219,963 in the Head Start Fund, \$4,236 of SBGP Program, and \$1.65 million in Other Governmental Funds, all was deposit in Popular Bank of Puerto Rico. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally deposit in accounts with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Under the laws and regulations of the Government, public funds deposited by the **Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the **Municipality's** name.

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$950,863 that are restricted for the payment of the **Municipality's** debt service, as required by law. Cash with Fiscal Agent in other governmental funds consist principally of \$1.06 million of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of Section C20 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the **Municipality** at June 30, 2010:

3. CASH AND INVESTMENTS (continuation)

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010, the **Municipality** has invested only in cash equivalents of \$1.9 million consisting of deposit in commercial bank accounts, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the **Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt or equity securities were made during the Fiscal Year ended June 30, 2010. Therefore, the **Municipality's** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the **Municipality's** deposits is considered low at June 30, 2010.

Custodial Credit Risk

This 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 Government adopted by GDB, the **Municipality** may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2010, the **Municipality** has balances deposited in commercial banks amounting to \$1.9 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$2.0 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the **Municipality** through June 30, 2010. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the **Municipality's** management has concluded that at June 30, 2010, the custodial credit risk associated with the **Municipality's** cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The **Municipality** manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2010, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2010, the interest risk associated with the **Municipality's** cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the **Municipality**, the **Municipality** is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the **Municipality's** deposits is considered low at June 30, 2010.

4. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. *Interfund Receivable and Payable Balances*

Due to/from Other Funds at June 30, 2010 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
Head Start	General Fund	\$ 31,126
General Fund	Head Start	\$ 172,843
General Fund	SBGP	67,102
General Fund	Other Fund	<u>1,744,466</u>
Total		<u>\$2,015,537</u>

4. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (continuation)

B. 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	\$ 213,436	Debt Payments
General Fund	Other Governmental Funds	<u>12,413</u>	Matching Requirements
	Total	<u>\$ 225,849</u>	

5. DEFERRED REVENUES

Governmental funds report *deferred revenue* 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	\$ -	\$ 288,888
Other Major Funds	-	377,140
Head Start	4,595,297	-
SBGP	529,593	-
Intergovernmental	<u>86,293</u>	-
Total Deferred/Unearned Revenue	<u>\$ 5,211,183</u>	<u>\$ 666,028</u>

6. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2010, 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	\$ 63,862
General Administration Services	1,308
AEELA	785
Retirement System Administration	<u>54,968</u>
Total Due to Governmental Units	<u>\$ 120,923</u>

7. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2010 was as follows:

DESCRIPTION	BALANCE JULY 1, 2009	RECLASSI- FICATION	INCREASES	DECREASES	BALANCE JUNE 30, 2010
Non-Depreciable Capital Assets:					
Land	\$ 6,798,834	\$ -	\$ -	\$ -	\$ 6,798,834
Construction in Progress	5,720,321	(2,773,712)	2,622,731	-	5,569,340
Total Non-Depreciable Capital Assets	12,519,155	(2,773,712)	2,622,731	-	12,368,174
Depreciable Capital Assets:					
Buildings and Buildings Improvements	10,517,526	2,773,712	-	-	13,291,238
Equipment and Vehicles	1,428,515	-	64,822	-	1,493,337
Furniture and Fixtures	526,942	-	-	-	526,942
Heavy Equipment	2,538,343	-	70,391	-	2,608,734
Infrastructure	4,669,098	-	45,205	-	4,714,303
Total Depreciable Capital Assets	19,680,424	2,773,712	180,418	-	22,634,554
Less Accumulated Depreciation:					
Buildings and Buildings Improvements	(2,597,667)	-	(213,566)	-	(2,811,233)
Equipment and Vehicles	(1,078,670)	-	(150,443)	-	(1,229,113)
Furniture and Fixtures	(300,721)	-	(43,083)	-	(343,804)
Heavy Equipment	(1,393,937)	-	(112,605)	-	(1,506,542)
Infrastructure	(392,268)	-	(32,473)	-	(474,741)
Total Accumulated Depreciation	(5,763,263)	-	(602,170)	-	(6,365,433)
Total Depreciable Capital Assets (Net)	13,917,161	2,773,712	(421,752)	-	16,269,121
CAPITAL ASSETS, NET	\$ 26,436,316	\$ -	\$ 2,200,979	\$ -	\$ 28,637,295

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

	AMOUNT
General Government	\$ 102,369
Public Safety	36,130
Public Works and Transportation	258,933
Culture and Recreation	186,673
Health and Welfare	6,022
Education	12,043
Total Depreciation Expenses	<u>\$ 602,170</u>

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 10).

8. GENERAL LONG-TERM DEBTS (continuation)

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2010:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
General Obligation Bonds - Property Taxes:			
\$441,000, Series 1990 - General Construction	2016	5.00%	\$ 138,000
\$440,000, Series 2006 - Purchase of Equipment	2011	5.00%	140,000
\$685,000, Series 2007 - General Construction	2031	7.00%	655,000
\$655,000, Series 2008 - General Construction	2031	7.50%	640,000
Total General Obligation Bonds			1,573,000
Special Obligation Bonds - General Revenues:			
\$1,220,000, Series 2002 - Purchase of Equipment	2016	8.00%	665,000
\$128,024, Series 2007 - General Construction	Undetermine ¹	Undetermine ¹	128,024
Total Special Obligation Bonds - General Revenues			793,024
Special Obligation Bonds - Sales and Use Taxes:			
\$2,855,000, Series 2008 - General Construction	2024	7.50%	2,650,000
\$310,000, Series 2008 - Purchase of Equipment	2015	7.50%	220,000
Total Special Obligation Bonds - Sales and Use Taxes			2,870,000
Total Special Obligation Bonds			3,663,024
Total General and Special Obligation Bonds			\$ 5,236,024

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

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

C. 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%.

8. GENERAL LONG-TERM DEBTS (continuation)

Deferred Credits

This amount represents the unpaid balance of the bond issue cost of the following obligation: \$2,855,000, Series 2008 special obligation bonds.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2010 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2010.

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, 2009	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2010	AMOUNT'S DUE WITHIN ONE YEAR	AMOUNT'S DUE AFTER NEXT YEAR
Law Number 146-MRCC	\$ 77,416	\$ -	\$ (3,365)	\$ 74,051	\$ 3,366	\$ 70,685
Law Number 42-MRCC	942,805	-	(19,350)	923,455	20,565	902,890
LIMS-MRCC	17,138	-	(6,556)	10,582	6,951	3,631
Deferred Credits	6,716	-	-	6,716	-	6,716
Christmas Bonus	181,930	172,586	(181,930)	172,586	172,586	-
Compensated Absences	2,190,717	632,943	(194,727)	2,628,933	2,022,137	606,796
TOTAL	\$ 3,416,722	\$ 805,529	\$ (405,928)	\$ 3,816,323	\$ 2,225,605	\$ 1,590,718

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2010:

DESCRIPTION	BALANCE JULY 1, 2009	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2010	AMOUNT'S DUE WITHIN ONE YEAR	AMOUNT'S DUE AFTER NEXT YEAR
General	\$ 1,727,000	\$ -	\$ (154,000)	\$ 1,573,000	\$ 125,000	\$ 1,448,000
Special	4,043,024	-	(380,000)	3,663,024	255,000	3,408,024
Others Debts	3,416,722	805,529	(405,928)	3,816,323	2,225,605	1,590,718
TOTAL	\$ 9,186,746	\$ 805,529	\$ (939,928)	\$ 9,052,347	\$ 2,605,605	\$ 6,446,742

E. 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.

8. GENERAL LONG-TERM DEBTS (continuation)

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2010 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
2011	\$ 125,000	\$ 67,407	\$ 255,000	\$ 262,262	\$ 2,225,605	\$ 61,959	\$ 2,605,605	\$ 391,628
2012	131,000	97,667	270,000	242,312	28,855	60,037	429,855	400,016
2013	68,000	92,012	290,000	221,212	26,596	58,348	384,596	371,572
2014	69,000	87,687	315,000	198,375	28,056	56,678	412,056	342,740
2015	70,000	83,312	410,000	187,250	29,607	54,919	509,607	325,481
2016-2020	280,000	353,550	950,000	540,937	174,943	244,543	1,404,943	1,139,030
2021-2025	385,000	233,213	1,045,000	202,875	231,262	182,989	1,661,262	619,077
2026-2030	335,000	87,261	-	-	307,643	101,375	642,643	188,636
2031	110,000	8,050	-	-	150,244	11,891	260,244	19,941
Undetermine	-	-	128,024	-	613,512	-	741,536	-
TOTAL	\$ 1,573,000	\$ 1,110,159	\$ 3,663,024	\$ 1,855,223	\$ 3,816,323	\$ 832,739	\$ 9,052,347	\$ 3,798,121

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 11).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 9). 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.

10. PROPERTY TAXES

The **Municipality** is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market price).

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 2010 resulted in a receivable of \$28,702 for the Debt Service Fund. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination.

10. PROPERTY TAXES (continuation)

The tax rate for fiscal year 2010 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 12). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first \$150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the **Municipality** (6.00%), except for residential units assessed at less than \$35,000 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 Secretary of the Treasury to the **Municipality** was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

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** 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.

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 Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3.0 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2010, the tax rates were as follows:

- 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 on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2010. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as deferred revenues in the General Fund.

12. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the 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 Taxes, are required to file a monthly Sales and Use Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales and Usage Taxes receivable represents filed sales tax returns that were collected subsequent to June 30, 2010, but pertaining to the current year period.

13. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the **Municipality**. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project. The activities covers by this tax and the exemption granted are as follows:

- a. All construction with a total cost up to \$100,000 will pay 1% for the total construction cost. All construction with a total cost in excess of \$100,000 will pay 1.10% of construction excise taxes.
- b. All construction of a single-family residential construction projects of more than five (5) units related to housing development projects, condominiums, or any similar projects, with a total cost exceeding \$30,000 per unit, will pay 1% of construction excise taxes. For project with individual cost of less than \$30,000 will pay \$100 of construction excise taxes per unit.
- c. All construction projects carried out by state, federal and municipal governments have full exemption to the construction excise taxes.
- d. All construction projects carried out by not-for-profit organization educational institutions have full exemption to the construction excise taxes.

14. 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.

15. PENSION PLAN

Description of the Plan

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

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.

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.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required 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 their monthly gross salary. The **Municipality** is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

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 (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of 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 Government. 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.

15. PENSION PLAN (continuation)

Funding Policy

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

Contribution requirements are established by law and are as follows:

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

Annual Contribution

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

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

FISCAL YEAR	LAW NO.447	SYSTEM 2000
2010	\$ 111,853	\$ 73,743
2009	123,420	66,704
2008	123,921	56,027

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

16. 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 cannot determine the final outcome of these claims.

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.

17. COMMITMENTS

A. Operating Leases

The **Municipality** leases real property, buildings, and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2010, amounted to approximately \$334,076. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Construction

The **Municipality** had commitments at June 30, 2010 of approximately \$919,000 for the construction, improvements, or renovation of several municipal facilities.

C. Other Commitments

At June 30, 2010, the general fund had a deficit of \$586,761 which will be covered with future budgetary appropriations of the general fund.

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, 2010

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget
BUDGETARY FUND BALANCE (DEFICIT), As Restated, JULY 1, 2009	\$ (1,274,094)	\$ (1,274,094)	\$ (1,274,094)	\$ -
Resources (Inflows):				
Property Taxes	922,051	922,051	922,052	1
Volume of Business Taxes	321,000	358,158	391,867	33,709
Sale and Usage Taxes	300,000	631,917	389,413	(242,504)
Intergovernmental Revenues	7,525,120	7,557,150	8,104,043	546,893
License and Permits	55,700	120,980	123,244	2,264
Rent	21,200	48,300	50,150	1,850
Miscellaneous	195,550	643,000	801,413	158,413
Total Resources (Inflows)	9,340,621	10,281,556	10,782,182	500,626
Amounts Available for Appropriation	8,066,527	9,007,462	9,508,088	500,626
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	606,261	862,865	979,335	(116,470)
General Government	4,325,079	4,127,643	4,323,986	(196,343)
Public Safety	688,443	603,583	594,704	8,879
Public Works	1,595,573	2,009,545	1,985,183	24,362
Culture and Recreation	692,926	623,142	628,972	(5,830)
Health and Sanitation	481,065	541,285	470,499	70,786
Solid Waste Disposal	180,000	210,500	224,709	(14,209)
Human Services and Welfare	207,374	285,523	246,796	38,727
Urban Development	250,000	767,773	455,946	311,827
Capital Outlays	168,900	23,848	22,959	889
Transfers to Other Funds	145,000	225,849	225,849	-
Total Charges to Appropriations	9,340,621	10,281,556	10,158,938	122,618
BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2010	\$ (1,274,094)	\$ (1,274,094)	\$ (650,850)	\$ 623,244

See accompanying Notes to Required Supplementary Information.

NOTE A Explanation of Differences Between Budgetary 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 43)	\$ 9,508,088
Difference – Budget to GAAP:	
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>1,274,094</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 10,782,182</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 43)	\$ 10,158,938
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	(413,200)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	349,111
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(225,849)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 9,869,000</u>

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

Budgetary Fund Balance (Deficit), June 30, 2010	\$ (650,850)
Timing Differences:	
Encumbrance	413,200
Payments of Prior Year Encumbrances	<u>(349,111)</u>
Fund Balance (Deficit), June 30, 2010	<u>\$ (586,761)</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, 2010**

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	CCC-252	<u>\$ 668,143</u>
U.S. Department of Housing and Urban Development:			
Section 8 Housing Choice Vouchers	14.871		<u>243,169</u>
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program) (Cluster)	14.228	2010-003500	837,389
ARRA – Community Development Block Grants/ States Program (SBGP) and Non Entitlements Grants in Hawaii (State Administered Small Cities Program) (Cluster)	14.255	08-AB-AR-49-00	<u>21,400</u>
Subtotal Community Development Block Grant (Cluster)			<u>858,789</u>
Pass-Through Puerto Rico Department of Family:			
ARRA – Homelessness Prevention and Rapid Re-Housing Program	14.257	2009-508DC72001	<u>37,029</u>
Emergency Shelter Grant (ESG)	14.231	N/AV	<u>21,020</u>
Total U.S. Department of Housing and Urban Development			<u>1,160,007</u>
U. S. Department of Energy:			
Pass-Through Puerto Rico Energy Affairs Administration:			
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	EEA-FOA-0013A	<u>14,000</u>
U.S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Head Start Program (Cluster)	93.600	02-CH-9944/06AD 02-CH-9944/06TA	7,199,752
ARRA – Head Start Program (Cluster)	93.708	02-CH-9944/06AD	<u>348,920</u>
Subtotal Head Start Program (Cluster)			<u>7,548,672</u>
Total U. S. Department of Health and Human Services			<u>7,548,672</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>22,103</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$9,412,925</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the **Municipality of Orocovis, Puerto Rico (Municipality)**. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **Municipality**, it is not intended to and does not present the financial position, or change in net assets of the **Municipality**.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

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.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the **Municipality's** Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund as follows: Head Start Fund – \$7,548,672, SBGP Fund – \$858,789, and Other Governmental Funds \$1,005,464.

END OF NOTES



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC 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, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2010. 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 as a basis for designing our auditing procedures for purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality's** internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.



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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Orocovis, Puerto Rico
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This report is intended solely for the information and use of the management, Mayor, 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.

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Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
December 29, 2010





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 **Municipality of Orocovis, Puerto Rico (Municipality)**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality's** major federal programs for the fiscal year ended June 30, 2010. **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. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Municipality's** compliance with those requirements.

In our opinion, **Municipality** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

Management of **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 **Municipality's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality's** internal control over compliance.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Orocovi, Puerto Rico
Page 2

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

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

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.

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Caguas, Puerto Rico
December 29, 2010



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:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program) (Cluster)
14.255	ARRA – Community Development Block Grants/ States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program) (Cluster)
93.600	Head Start Program (Cluster)
93.708	ARRA – Head Start Program (Cluster)

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

Auditee qualified as low-risk auditee? Yes No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NO MATTER IS REPORTED.

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2008

Finding Number	2008-III-01	Procurement, Suspension, and Debarment Missing contract clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments	Systems and procedures were corrected.	

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2009

Finding Number	2009-III-01	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the Office of the Commissioner of Municipal Affairs.	

Finding Number	2009-III-02	Davis-Bacon Act No documentation of procedures performed to verify that wages paid are not less than the prevailing wages.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	2009-III-03	Special Test and Provision Head Start Program did not obtain for various Centers, the required licenses issued by the Public Service Commission of Puerto Rico.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of PR Office of the US Department of Housing and Urban Development.	

continue

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE