

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE OROCOVIS

AUDITORIA 2006-2007

30 DE JUNIO DE 2007

COMA DEL COMISIONADO
POR LOS MUNICIPIOS

17 JUN 2007 11:04

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

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2007

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

RS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2007
(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 the **Municipality of Orocovis, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2007, which collectively comprise the **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the third paragraph, 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.

We were unable to obtain sufficient and competent evidence to support the valuation, existence, completeness and rights applicable to certain infrastructure capital assets in governmental activities and we were unable to satisfy ourselves by means of other auditing procedures.

In our opinion, except for the effects, if any, of such adjustments, as might have been determined to be necessary had we been able to obtain sufficient evidence to certain infrastructure capital assets in governmental activities as explained in third paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of the **Municipality**, as of June 30, 2007, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining funds information of the **Municipality**, as of June 30, 2007, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 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.



INDEPENDENT AUDITORS' REPORT

Page 2

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13, and 31 and 32, 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.

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

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

Caguas, Puerto Rico
December 7, 2007



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007. 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 \$17.2 millions (net assets).
- As of June 30, 2007, the Municipality's General Fund (the primary operating fund) reported a superavit of \$152,003, an increase of \$59,694 in comparison with the prior year.
- The Municipality's activities expenses show an increase of \$849 thousand in comparison with prior year and revenues show an increase of \$2.3 million. The results of activities for fiscal year 2006-07 produced an increase of net assets of \$1.8 million.
- The total cost of the Municipality's mayor programs (Head Start and SBGP) amounted to \$7.9 millions and \$7.2 millions during fiscal year 2006-07 and 2005-06 respectively. This represented an increase of \$0.7 million (or 5%).
- The investment in capital assets for this year is \$14.1 million representing an increase of \$1.2 million (or 9%) in comparison with prior year.
- Loans principal payments were \$171,000, decreasing long-term debt. The balance due for compensated absences decreased by \$160,628 during this fiscal year.
- Resources available for appropriation were \$77,982 less than budgeted for the General Fund.

Municipality Highlights

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

USING THIS ANNUAL REPORT

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 14. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 14), combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets (note: infrastructure incurred before July 1, 2002 will be added later) and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the City.

The Statement of Activities (see page 15) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, state and federal contributions finance most of these services.

Fund Financial Statements

Our analysis of the Municipality's major funds begins on page 16. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Fund (see pages 16 through 19) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 30.

Infrastructure Assets

The Municipality implemented the major model portions of GASB Statement No. 34 during the last four and current fiscal year. Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) have not been reported nor depreciated in governmental financial statements. The new statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The Municipality elected to depreciate these assets, which are planned to be included for fiscal year 2007-2008.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$17.2 million at the close of the recent fiscal year. The following table reflects the condensed statement of Net Assets compared to prior year. For more detailed information see the Statement of Net Assets (page 14).

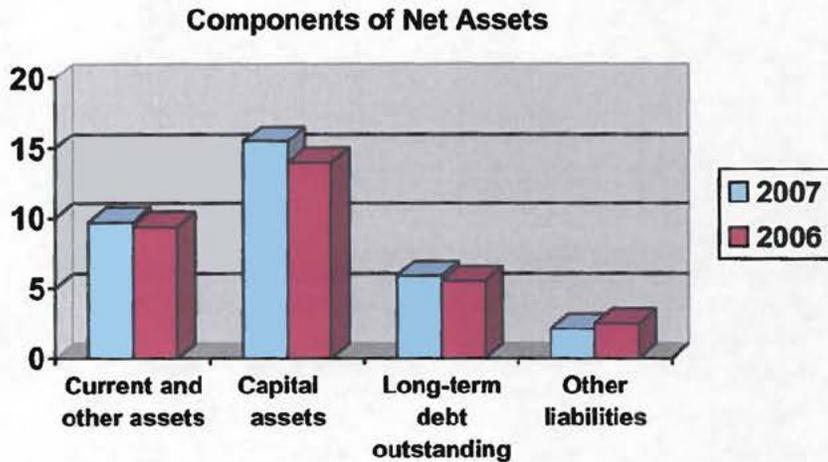
**Table 1
Net Assets
(In millions)**

	Governmental Activities	
	<u>2006</u>	<u>2007</u>
Current and other assets	\$ 9.4	\$ 9.7
Capital assets	<u>14.0</u>	<u>15.5</u>
Total assets	<u>23.4</u>	<u>25.2</u>
Current and other liabilities	2.5	2.1
Long-term debt outstanding	<u>5.5</u>	<u>5.9</u>
Total liabilities	<u>8.0</u>	<u>8.0</u>
Net assets:		
Invested in capital assets, net of debt	12.8	14.1
Restricted	6.4	6.8
Unrestricted	<u>(3.8)</u>	<u>(3.7)</u>
Total net assets	<u>\$ 15.4</u>	<u>\$ 17.2</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007



The largest portion of the Municipality's net assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt that is still outstanding used to acquire those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (40 percent) represents resources that are subject to external restrictions on how they may be used. The remaining portion of the Municipality's net assets (negative 20 percent) of unrestricted deficit is more related to the effect of the new financial statements focus, than on the availability of resources that may be used to meet the Municipality's ongoing obligations to citizens and creditors, subject to certain law requirements. For example, the restricted balance for vested compensated absences established is for the total vested amount as of 6/30/2007, rather than by the final amount that is going to be paid in the future that usually is less than restricted due to vacation and sick leave taken over accumulated. Also the valuation of the capital assets under the new financial statements focus and the method used to compute its accumulated depreciation are factors of consideration to understand the unrestricted deficit.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Statement of Activities

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

Table 2

**Changes in Net Assets
(in millions)**

	Governmental Activities	
	2006	2007
REVENUES		
Program Revenues:		
Charges for services	\$ 0.8	\$ 0.6
Federal grants-operating	9.4	12.1
Capital grants	-	-
General Revenues:		
Property taxes	0.3	1.2
Municipal license tax	0.4	0.5
Intergovernmental	7.8	6.6
Rent	0.1	0.0
Miscellaneous	<u>0.6</u>	<u>0.8</u>
Total Revenues	<u>19.4</u>	<u>21.8</u>
EXPENSES		
Program Expenses:		
General government	\$ 6.0	\$ 5.6
Public safety	0.4	0.6
Public works	2.5	2.5
Culture and Recreation	0.7	0.7
Sanitation	0.6	0.6
Human Services and welfare	1.0	1.0
Urban Development	0.4	2.1
Public Instruction	7.3	6.7
Interest on long-term debt	<u>0.2</u>	<u>0.2</u>
Total Expenses	<u>19.1</u>	<u>20.0</u>
Increase (decrease) in Net Assets	<u>\$ 0.3</u>	<u>\$ 1.8</u>

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

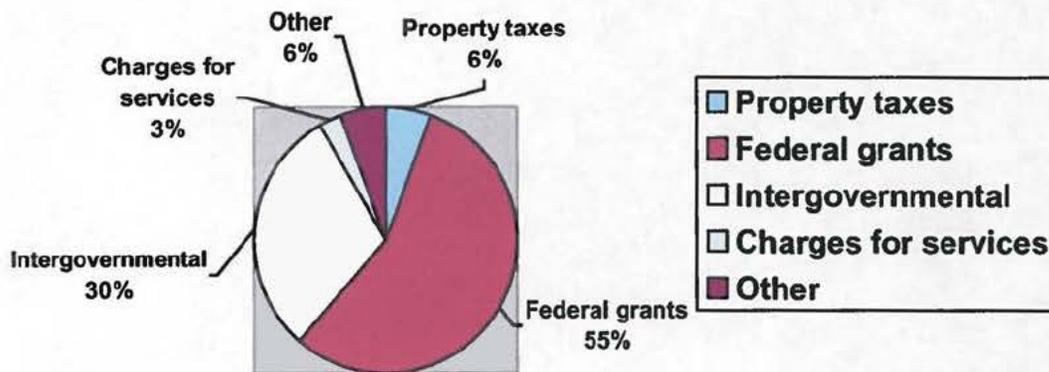
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Revenues

Grants (federal and state) are considered recurring revenues, although minor changes from year to year are considered normal. An additional portion of the Municipality's revenue (30 percent) represents intergovernmental revenue. Such revenue consists primarily of funds received from Commonwealth of Puerto Rico, "In lieu of tax" payments from the quasi-public corporation, the Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. The overall increase of 7.0% without the portion attributable to taxes and grants can be attributable to normal economic environment.

Revenues by Source - Governmental Activities 2006-07



Expenses

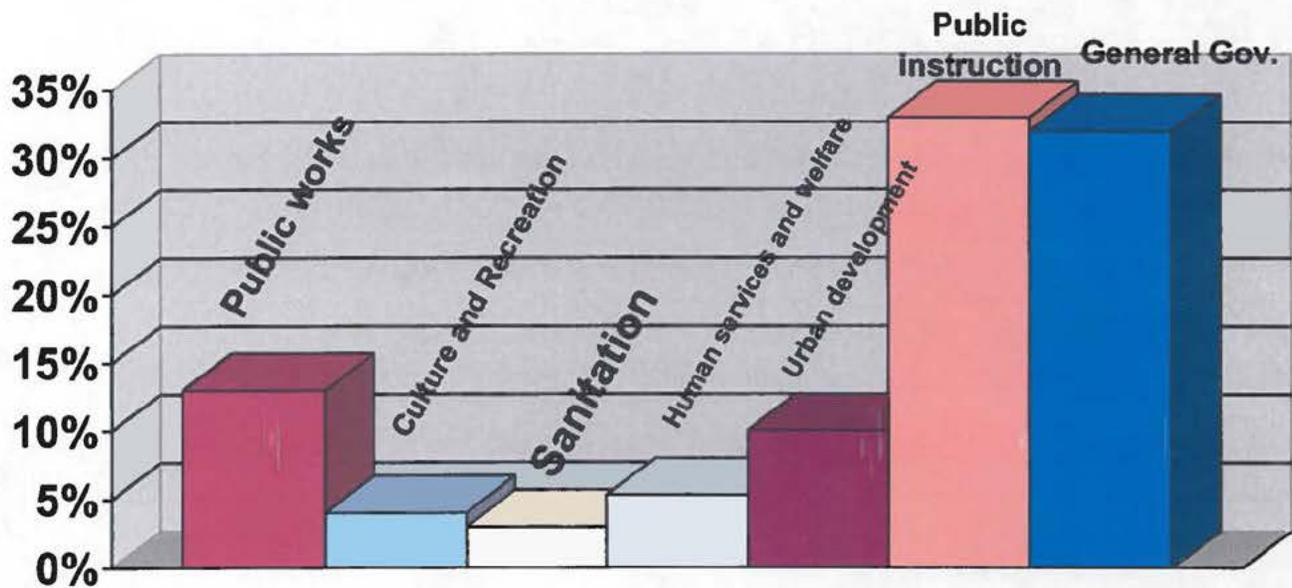
Total cost of all programs and services increased by \$0.9 millions. For the most part, increases in expenses paralleled inflation and growth in the demand for services. One significant variance however, was a decrease in general government. Table 3 compares the cost of each of the Municipality of Orocovis largest programs with prior year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Table 3
Governmental Activities
(in Millions of Dollars)

	Total cost Of services	
	2006	2007
Public works	2.5	2.5
Culture and Recreation	0.7	0.7
Sanitation	0.6	0.6
Human services and welfare	1.0	1.0
Urban development	0.4	2.1
Public instruction	7.3	6.7
General government and others	6.6	6.4
Totals	19.1	20.0

Expenses by Use - Governmental Activities
2006-07



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 \$1.5 million which is above last year's total of \$.7 million. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$59,694 increase from a fund balance superavit of \$92,309 in the previous year to a superavit of \$152,003 at the end of the current year. The primary reason for the Governmental fund's superavit in the current year was an excess of revenues over expenditures from the General Fund funds of \$318,291 and a net contribution transfer (out) of 258,597.

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$1.6 million (see page 31 for budget to actual comparisons). The current year operations resulted in a \$0.4 million net loss, for budgetary purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the Municipality had \$ 15.5 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 \$ 1.4 million or 5.0% from the end of last year.

Table 4
Capital Assets at Year-end
(Net of Depreciation, in millions)

<u>Governmental Activities</u>	2006	2007
Land	\$ 1.1	\$ 1.5
Construction in progress	2.3	2.7
Building and improvements	6.3	6.6
Furniture and fixture	0.2	0.2
Equipment and vehicles	0.4	0.5
Heavy equipment	1.1	1.0
Infrastructure	<u>2.7</u>	<u>3.0</u>
Totals	<u>\$14.1</u>	<u>\$15.5</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

This year's major additions included (in millions):

Construction in progress of Sorobei Building	\$ 0.3
Cultural Center Juan Cartagena Martínez	0.4
Road improvements	0.2

Debt Outstanding

As of year-end, the Municipality had \$5.9 million in debts (bonds and other long-term debts) outstanding compared to the \$5.5 million last year, a 3% net increase (considering new issues and debt retirement).

**Table 5
Outstanding Debt at Year-end
(In millions)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2007</u>
General and special obligation bonds and notes	\$ 1.8	\$ 2.4
Advances from CRIM	1.1	1.1
Christmas bonus	0.2	0.2
Compensated absences	<u>2.4</u>	<u>2.2</u>
Totals	<u>\$ 5.5</u>	<u>\$ 5.9</u>

Principal payments of \$230 thousand were made by the Municipality during the current year.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 2007 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

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

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2007-08. Amounts available for appropriations (revenues) in the General Fund Budget are \$ 8.5 million, an increase of 4.0% over the 2006-07 original budget of \$ 7.7 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 2007-08.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash.....	\$ 1,290,073
Cash with Fiscal Agent.....	1,129,981
Receivables (net):	
Federal Grants.....	6,353,789
Due from Government Units.....	356,474
Others.....	<u>509,285</u>
Deferred Charges.....	19,703
Capital Assets (Note 6):	
Land, Improvement and Construction in Progress.....	4,249,778
Other Capital Assets [Net of Depreciation].....	<u>11,259,269</u>
Total Capital Assets.....	<u>15,509,047</u>
TOTAL ASSETS.....	<u>25,168,352</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses.....	1,562,756
Accrued Interest.....	31,897
Deferred Revenues.....	498,509
Long-Term Liabilities (Note 9):	
Due Within One Year.....	2,124,493
Due in More than One Year.....	<u>3,771,189</u>
TOTAL LIABILITIES.....	<u>7,988,844</u>
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt.....	14,056,436
Restricted for:	
Capital Projects.....	150,447
Head Start.....	5,034,608
Debt Service.....	550,931
Community Development Projects.....	1,059,375
Unrestricted (Deficit).....	<u>(3,672,289)</u>
TOTAL NET ASSETS.....	<u>\$ 17,179,508</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues (See Next Page)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Assembly.....	\$ 1,054,285	\$ -	\$ -	\$ -	\$ (1,054,285)
General Government.....	4,534,006	557,965	688,064	-	(3,287,977)
Public Safety.....	550,569	-	150,928	-	(399,641)
Public Works.....	2,489,364	-	2,323,191	-	(166,173)
Culture and Recreation.....	744,886	-	-	-	(744,886)
Health and Sanitation.....	589,026	-	-	-	(589,026)
Public Instruction.....	6,659,027	-	6,850,467	-	191,440
Human Services and Welfare.....	1,080,493	-	1,193,131	-	112,638
Urban Development.....	2,081,188	-	877,431	-	(1,203,757)
Interest on Long-Term Debt.....	198,106	-	-	-	(198,106)
Total Governmental Activities.....	\$ 19,980,950	\$ 557,965	\$ 12,083,212	\$ -	(7,339,773)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes.....					936,795
Property Taxes, levied for Debt Service.....					237,248
Volume of Business Taxes.....					382,239
Construction Taxes.....					78,438
Intergovernmental.....					6,611,209
Rent.....					79,225
Miscellaneous.....					812,378
Total General Revenues and Transfers.....					9,137,532
CHANGES IN NET ASSETS.....					1,797,759
Net Assets – Beginning of Year, As Restated.....					15,381,749
NET ASSETS – ENDING OF YEAR.....					\$ 17,179,508

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2007

	GENERAL FUND	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash (Note 1).....	\$ 150,131	\$ 346,197	\$ 1,872	\$ -	\$ 791,873	\$ 1,290,073
Cash with Fiscal Agent.....	-	-	-	417,145	712,836	1,129,981
Receivables:						
Federal Grants.....	-	4,693,430	1,393,672	-	266,687	6,353,789
Due from Other Funds.....	1,027,744	30,646	-	-	75,000	1,133,390
Due from Governmental Units.....	356,474	-	-	-	-	356,474
Other Receivables.....	-	-	-	-	509,285	509,285
Total Assets.....	\$ 1,534,349	\$ 5,070,273	\$ 1,395,544	\$ 417,145	\$ 2,355,681	\$ 10,772,992
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Account Payable.....	\$ 572,816	\$ 73,278	\$ 243,559	\$ -	\$ 595,101	\$ 1,484,754
Bond and Notes.....	-	-	-	100,000	-	100,000
Account Interest.....	-	-	-	31,897	-	31,897
Due to Governmental Units.....	78,002	-	-	-	-	78,002
Due to Other Funds (Note 4).....	105,646	-	92,610	4,317	930,817	1,133,390
Deferred Revenues:						
Volume of Business Tax.....	288,008	-	-	-	-	288,008
Intergovernmental Commonwealth.....	337,874	-	-	-	-	337,874
Federal Grants.....	-	4,611,098	1,038,250	-	210,501	5,859,849
Total Liabilities.....	1,382,346	4,684,376	1,374,419	136,214	1,736,419	9,313,774
Fund Balances:						
Reserve For:						
Encumbrances.....	384,696	-	-	-	-	384,696
Debt Service.....	-	-	-	280,931	-	280,931
Unreserved.....	(232,693)	385,897	21,125	-	619,262	793,591
Total Fund Balances.....	152,003	385,897	21,125	280,931	619,262	1,459,218
Total Liabilities and Fund Balances.....	\$ 1,534,349	\$ 5,070,273	\$ 1,395,544	\$ 417,145	\$ 2,355,681	\$ 10,772,992

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2007

Total Fund Balances – Government Funds (Page 16)		\$ 1,459,218
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.....	\$ 4,249,778	
Depreciable Capital Assets.....	12,551,550	
Infrastructure Assets.....	3,308,590	
Accumulated Depreciation.....	<u>(4,600,871)</u>	
Total Capital Assets.....		15,509,047
Other Assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred Charges.....		19,703
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.....	1,038,250	
Municipal Revenue Collection Center.....	251,009	
Christmas Bonus Reimbursement.....	86,865	
Head Start Program.....	<u>4,611,098</u>	
Total Deferred Revenues.....		5,987,222
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Bonds.....	(1,227,000)	
Special Bonds.....	(1,023,024)	
Retirement System Administration.....	(55,265)	
Compensated Absences.....	(2,225,225)	
Christmas Bonus.....	(173,730)	
Property Tax Advances.....	<u>(1,091,438)</u>	
Total Long-Term Liabilities.....		<u>(5,795,682)</u>
Total Net Assets of Governmental Activities (Page 14)		<u>\$ 17,179,508</u>

See accompanying Notes to Basic Financial Statements.

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, 2007

	GENERAL FUND	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes.....	\$ 936,795	\$ -	\$ -	\$ 237,248	\$ -	\$ 1,174,043
Volume of Business Taxes.....	382,239	-	-	-	-	382,239
Federal Assurances.....	-	6,715,385	1,165,354	-	1,365,640	9,246,379
Intergovernmental.....	6,925,436	-	-	-	3,122,993	10,048,429
Licenses and Permits.....	78,438	-	-	-	-	78,438
Rent.....	79,225	-	-	-	-	79,225
Miscellaneous.....	812,378	-	-	-	-	812,378
Total Revenues.....	9,214,511	6,715,385	1,165,354	237,248	4,488,633	21,821,131
EXPENDITURES:						
Current:						
Mayor and Municipal Legislature.....	1,054,285	-	-	-	-	1,054,285
General Government.....	3,726,656	-	-	-	773,996	4,500,652
Public Safety.....	490,711	-	-	-	30,000	520,711
Public Works.....	2,070,328	-	184,728	-	-	2,255,056
Culture and Recreation.....	571,243	-	-	-	8,791	580,034
Health and Sanitation.....	586,641	-	-	-	-	586,641
Public Instruction.....	-	6,685,801	-	-	-	6,685,801
Human Services and Welfare.....	190,695	-	-	-	889,798	1,080,493
Urban Development.....	179,361	-	917,211	-	984,616	2,081,188
Capital Outlay.....	26,300	-	63,415	-	1,900,028	1,969,743
Debt Service:						
Principal.....	-	-	-	229,637	-	229,637
Interest and Other Charges.....	-	-	-	198,106	-	198,106
Bond Issue Costs.....	-	-	-	7,186	-	7,186
Total Expenditures.....	8,896,220	6,685,801	1,165,354	434,929	4,587,229	21,769,533
EXCESS OF REVENUES OVER (UNDER)						
EXPENDITURES.....	318,291	29,584	-	(197,681)	(98,596)	51,598
OTHER FINANCING SOURCES (USES):						
Proceed of Note.....	-	-	-	-	685,000	685,000
Transfers - In.....	-	-	-	231,390	34,393	265,783
Transfers - Out.....	(258,597)	-	-	-	(7,186)	(265,783)
Total Other Financing Sources and Uses.....	(258,597)	-	-	231,390	712,207	685,000
Net Change in Fund Balance.....	59,694	29,584	-	33,709	613,611	736,598
Fund Balance - Beginning.....	92,309	356,313	21,125	247,222	5,651	722,620
FUND BALANCE - ENDING.....	\$ 152,003	\$ 385,897	\$ 21,125	\$ 280,931	\$ 619,262	\$ 1,459,218

Handwritten signature and date:
10/24/08

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

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, 2007

Net Change in Fund Balances – Government Funds (Page 18)		\$ 736,598
Amount reported for Governmental Activities in the Statement of Activities (Page 15) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Assets.....	\$ 1,989,743	
Depreciation Expense.....	<u>(535,559)</u>	
Excess of Capital Assets over Depreciation Expense.....		1,454,184
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.....	1,763	
Municipal Revenue Collection Center.....	156,873	
SBGP.....	<u>(287,923)</u>	(129,287)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was.....		
		(685,000)
Governmental funds only report the proceeds received in the current financial resources are not reported as revenues in the funds.....		
		86,865
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.....		
		229,637
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:		
Bond Issue Costs Amortization.....	(2,051)	
Decrease in Claims and Judgments.....	15,000	
Increase in Christmas Bonus.....	(13,550)	
Decrease in Compensated Absence.....	160,628	
Increase in Retirement System Administration.....	<u>(55,265)</u>	
Total Additional Expenses.....		<u>104,762</u>
Change in Net Assets of Governmental Activities (Page 15)		<u>\$ 1,797,759</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

A. Financial Reporting Entity

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

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Municipality's** financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Municipality** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Municipality**.

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

economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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

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

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Financial Statement Presentation

The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the **Municipality** as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

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

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the **Municipality** and its governmental activities. This statement, for the first time, 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 reported in three categories:

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Financial Statement Presentation (continuation)

- Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- 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, generally it is the **Municipality's** policy to use restricted resources first, then the unrestricted resources as they are needed.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Governmental Fund Financial Statements

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

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

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide

statements, reconciliation is presented and separate explanation for each differences.

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

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when susceptible to accrual; as soon enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the **Municipality** may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

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

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Measurement Focus and Basis of Accounting (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**.

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

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

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

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

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

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

D. Budgetary Data

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

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. All encumbrance appropriations in the operating budget lapse at the end of the fiscal year.

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.

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. Payments of encumbrances of prior year are recorded as expenditures under GAAP but not under the budgetary basis.
3. Interfund transactions of the General Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The special funds of the Special Revenue Fund have 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.

E. Cash and Investment

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

E. Cash and Investment (continuation)

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico and is not collateralized.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with law.

F. 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, 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.

All trade and property tax receivable are shown net of an allowances for uncollectible, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded programs.

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than

buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives: (See Table 1)

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

I. Compensated Absences

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

1. The **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

I. Compensated Absences (continuation)

- 4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations (see Note 8).

J. Insurance

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the **Municipality**.

K. 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:

Operating 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. 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.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

Fund Deficit in the General Fund is primarily attributable to decrease in revenues. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

M. Claims and Judgments

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

N. Use of Estimates

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

NOTE 2 CASH AND INVESTMENTS

The **Municipality** maintains its cash deposits in commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the **Municipality** are held by the Secretary of Treasury of Puerto Rico in the **Municipality's** name.

During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2007, the market value of investments recorded in General Fund approximated its carrying value as follow: (See Table 2)

CERTIFICATE OF DEPOSIT ISSUED BY	NUMBER	PRINCIPAL AMOUNT	RATE	TABLE 2 EXPIRATION DATE
Popular Bank of PR.....	01110000006	\$400,000	1.95%	01-04-08

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

The **Table 3** presented in next page discloses the level of custody risk assumed by the **Municipality** based upon how its deposits were insured or secured with collateral at June 30, 2007:

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS
(continuation)

	CATEGORY			CARRYING AMOUNT	BANK BALANCE
	1	2	3		
Deposits in Commercial Banks	\$1,290,073	\$ -	\$ -	\$1,290,073	\$1,038,085
Deposits in Governmental Bank	-	-	1,129,981	1,129,981	1,129,981
Total	<u>\$1,290,073</u>	<u>\$ -</u>	<u>\$1,129,981</u>	<u>\$2,420,054</u>	<u>\$2,168,066</u>
Reconciliation to Government-Wide Statement of Net Assets:					
		UNRESTRICTED	RESTRICTED	TOTAL	
Carrying amount of deposits in Commercial Banks	\$ -	\$ -	\$1,290,073	\$1,290,073	
Carrying amount of deposits in Government Bank	-	-	1,129,981	1,129,981	
Total	\$ -	\$ -	\$2,420,054	\$2,420,054	

As of June 30, 2007, the Municipality's custodial credit risk was approximately \$1,130, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, among others.

NOTE 4 OTHERS RECEIVABLES

As of June 30, 2007, the amount of \$356,474 corresponds of \$251,009 from the Intergovernmental Revenue from Municipal Revenue Collection; \$18,600 from Solid Waste Disposal Authority; and \$86,865 from the Department of Treasury of Puerto Rico.

Governmental funds report *deferred revenue* in connection with receivables for revenue 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 revenues* and *unearned revenue* reported in the governmental funds were as follow:

	Unavailable	Unearned
Volume of Business Taxes	\$ -	\$ 288,008
Other Major Funds	-	210,501
Head Start	4,611,098	-
SBGP	1,038,250	-
Intergovernmental	337,874	-
Total Deferred/Unearned Revenue	\$5,987,222	\$ 498,509

NOTE 5 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. (See Table 5)

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

TABLE 5

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
GENERAL FUND	DEBT SERVICE FUND	\$ 224,204	Debt payments
OTHER GOVERNMENTAL FUNDS	DEBT SERVICE FUND	7,186	Equity Transfer
GENERAL FUND	OTHER GOVERNMENTAL FUNDS	34,393	Matching requirements
	Total	<u>\$265,783</u>	

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2007 are summarized as follows: (See Table 6)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 6 AMOUNT
Head Start	General Fund	\$ 30,646
General Fund	SBGP	92,610
General Fund	Debt Service Fund	4,317
Other Fund	General Fund	75,000
General Fund	Other Fund	930,817
Total		<u>\$1,133,390</u>

NOTE 6 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2007, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 7)

	AMOUNT
Water and Sewer Authority	\$60,503
Department of Labor and Human Resources	15,366
Others Agencies	2,133
Total Due to Governmental Units	<u>\$78,002</u>

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2007 was as follows (See Table 8)

TABLE 8	BALANCE JULY 1, 2006	ADJUSTMENTS	INCREASES	DECREASES	BALANCE JUNE 30, 2007
Non-Depreciable Capital Assets:					
Land	\$ 1,098,478	\$ -	\$ 441,400	\$ -	\$ 1,539,878
Construction in Progress	<u>2,258,639</u>	<u>(405,911)</u>	<u>857,172</u>	<u>-</u>	<u>2,709,900</u>
Total Non-Depreciable Capital Assets	<u>3,357,117</u>	<u>(405,911)</u>	<u>1,298,572</u>	<u>-</u>	<u>4,249,778</u>
Depreciable Capital Assets:					
Buildings and Buildings Improvements	8,371,803	392,208	37,189	-	8,801,200
Equipment and Vehicles	1,067,128	-	197,350	37,881	1,226,597
Furniture and Fixtures	367,633	-	28,080	11,027	384,686
Heavy Equipment	2,265,151	-	-	126,084	2,139,067
Infrastructure	<u>2,880,038</u>	<u>-</u>	<u>428,552</u>	<u>-</u>	<u>3,308,590</u>
Total Depreciable Capital Assets	<u>14,951,753</u>	<u>392,208</u>	<u>691,171</u>	<u>174,992</u>	<u>15,860,140</u>
Less Accumulated Depreciation:					
Buildings and Buildings Improvements	(2,022,025)	-	(181,381)	-	(2,203,406)
Equipment and Vehicles	(659,473)	-	(145,827)	37,881	(767,419)
Furniture and Fixtures	(216,310)	-	(29,349)	11,027	(234,632)
Heavy Equipment	(1,120,957)	-	(129,413)	126,084	(1,124,286)
Infrastructure	<u>(221,539)</u>	<u>-</u>	<u>(49,589)</u>	<u>-</u>	<u>(271,128)</u>
Total Accumulated Depreciation	<u>(4,240,304)</u>	<u>-</u>	<u>(535,559)</u>	<u>174,992</u>	<u>(4,600,871)</u>
Total Depreciable Capital Assets (Net)	<u>10,711,449</u>	<u>392,208</u>	<u>155,612</u>	<u>-</u>	<u>11,259,269</u>
CAPITAL ASSETS, NET	<u>\$14,068,566</u>	<u>(\$ 13,703)</u>	<u>\$ 1,454,184</u>	<u>\$ -</u>	<u>\$15,509,047</u>

Depreciation expenses were charged to governmental functions/programs as follows: (See Table 9)

TABLE 9	AMOUNT
General Government	\$ 93,317
Public Safety	29,858
Public Works and Transportation	234,308
Culture	19,089
Recreation	145,763
Health and Welfare	2,385
Education	<u>10,839</u>
Total Depreciation Expenses	<u>\$535,559</u>

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 GENERAL LONG-TERM DEBTS

B. OTHER LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

Following are the Other Long-Term Debts (See Table 11):

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality.

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007
Property Taxes - Law 146.....	\$ 113,667	\$ -	(\$ 29,518)	\$ 84,149
Property Taxes - Law 42.....	994,256	-	(16,117)	978,139
LIMS.....	34,648	-	(5,498)	29,150
Retirement System Adm.....	-	55,265	-	55,265
Claims and Judgments.....	15,000	-	(15,000)	-
Christmas Bonus.....	160,180	173,730	(160,180)	173,730
Compensated Absences.....	<u>2,385,853</u>	-	<u>(160,628)</u>	<u>2,225,225</u>
TOTAL.....	<u>\$3,703,604</u>	<u>\$ 228,995</u>	<u>(\$ 386,941)</u>	<u>\$3,545,658</u>

General obligations bonds and notes payable as of June 30, 2007, are comprised of the following individual issues:

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2007: (See Table 12)

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$441,000, Series 1990, for construction purposes, payable in annual installments ranging from \$9,000 to \$30,000, excluding interests at 5.00% through July 1, 2016	\$ 207,000
\$215,000, Series 2003, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$40,000, excluding variable interests up to 4.10% through July 1, 2009	105,000
\$440,000, Series 2006, for purchase of equipment, payable in semiannual installments ranging from \$55,000 to \$70,000, excluding variable interests up to 5.00% through July 1, 2011	330,000
\$685,000, Series 2007, for construction purposes, payable in annual installments ranging from \$10,000 to \$60,000, excluding variable interests up to 7.00% through July 2031	<u>685,000</u>
Total General Obligations Bonds.....	<u>1,327,000</u>

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 748,000	\$ 685,000	(\$ 106,000)	\$1,327,000	\$ 122,000	\$1,205,000
Special.....	1,088,024	-	(65,000)	1,023,024	70,000	953,024
Others Debts...	<u>3,703,604</u>	<u>228,995</u>	<u>(386,941)</u>	<u>3,545,658</u>	<u>1,932,493</u>	<u>1,613,165</u>
TOTAL.....	<u>\$5,539,628</u>	<u>\$ 913,995</u>	<u>(\$ 557,941)</u>	<u>\$5,895,682</u>	<u>\$2,124,493</u>	<u>\$3,771,189</u>

Special Obligations Notes:

\$1,220,000, Series 2002, for purchase of equipment, payable in semiannual installments ranging from \$45,000 to \$140,000, excluding variable interest up to 8.00% through July 1, 2016	895,000
\$128,024, Series 2007, for construction purposes, which principal payment is unknown, which interest payment is unknown, unknown maturity date.....	<u>128,024</u>
Total Special Obligations Notes.....	<u>1,023,024</u>
Total General and Special Obligations.....	<u>\$2,350,024</u>

NOTE 9 DEBT RETIREMENT

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

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

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2007 are as follows (See Table 10):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2008	\$ 192,000	\$ 136,583	\$ 328,583
2009	208,000	135,078	343,078
2010	224,000	122,928	346,928
2011	200,000	110,234	310,234
2012	206,000	97,542	303,542
2013-2017	652,000	314,125	966,125
2018-2022	125,000	168,525	293,525
2023-2027	170,000	117,250	287,250
2028-2032	245,000	46,025	291,025
Unmatured	<u>128,024</u>	-	<u>128,024</u>
TOTAL	<u>\$2,350,024</u>	<u>\$1,248,290</u>	<u>\$3,598,314</u>

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico 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 property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.53% for real property and 6.53% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 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.

The remaining portion belonging to the **Municipality** of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 9). 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.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

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

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

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

NOTE 11 VOLUME OF BUSINESS TAX

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

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

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

NOTE 12 SALES TAXES

Municipality has establishing a Sales and Use Taxes of 1.5% (1% to the Municipality and .5% to the PR Department of Treasury) effective on July 1st, 2007 on all sales of goods and properties and a variety of other transactions. This tax is to be collected by any merchant dedicated to a business which sells or provides any goods or services described as taxable by the law or any other ruling set forth by the Municipal Legislature.

The sales tax will apply to all sales, rent contracts, or use transactions, with some exceptions as defined by the law. All merchants required to collect the Sales and Use Tax, are required to file a monthly Sales and Use Tax Return Form, no later than the 20th of the following month from the month being reported.

NOTE 13 INTERGOVERNMENTAL REVENUES

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

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

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COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

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.

The **Municipality** adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

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

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan).

Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will 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.

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

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also

provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows (See Table 13)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 13
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.	
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.	
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).	

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2007 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 EMPLOYEE'S RETIREMENT PLAN (continuation)

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions. The total pension expenditures recorded in the category of administration for the current and the previous years are as follows: (See Table 14)

TABLE 14		
FISCAL YEAR	LAW No. 447	SYSTEM 2000
2007	\$129,464	\$ 57,673
2006	\$131,049	\$ 56,882
2005	\$131,904	\$ 47,421
2004	\$129,285	\$ 31,728

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2007. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

NOTE 15 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims.

B. FEDERAL GRANTS

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

NOTE 16 NET ASSETS RESTATEMENT

Table 15 reconciles the June 30, 2006 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2006

NET ASSETS RESTATED	Table 15
Net Assets, as Previously Reported, At June 30, 2006	\$15,395,452
Adjustment to Fixed Assets	(13,703)
Beginning Net Assets, Restated, At July 1, 2006	\$15,381,749

NOTE 17 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

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

GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Period beginning after December 15, 2006)

GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension* (Period beginning after December 15, 2007)

GASBS No. 48, *Sales and Pledges of Receivables and Future Revenues* (Period beginning after December 15, 2006)

GASBS No. 49, *Pollution Remediation* (Period beginning after December 15, 2007)

GASBS No. 50, *Pension Disclosures* (Period beginning after June 15, 2007)

GASBS No. 51, *Intangible Assets* (Period beginning after June 15, 2009)

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, 2007

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget
	Original	Final		
BUDGETARY FUND BALANCE, JULY 1, 2006.....	\$ (675,480)	\$ (675,480)	\$ (675,480)	\$ -
Resources (Inflows):				
Property Taxes.....	74,169	74,169	74,169	-
Volume of Business Taxes.....	291,000	382,316	382,239	(77)
Intergovernmental Revenues.....	7,007,728	7,843,264	7,788,062	(55,202)
License and Permits.....	55,600	78,438	78,438	-
Rent.....	55,000	73,850	79,225	5,375
Miscellaneous.....	168,500	840,456	812,378	(28,078)
Total Resources (Inflows).....	7,651,997	9,292,493	9,214,511	(77,982)
Amounts Available for Appropriation.....	6,976,517	8,617,013	8,539,031	(77,982)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	946,457	1,106,746	1,169,296	(62,550)
General Government.....	3,110,654	3,677,614	3,394,499	283,115
Public Safety.....	574,997	490,802	490,802	-
Public Works.....	1,529,278	2,173,914	2,124,595	49,319
Culture and Recreation.....	550,097	571,999	571,999	-
Health and Sanitation.....	394,230	471,797	633,031	(161,234)
Solid Waste Disposal.....	170,000	192,250	-	192,250
Human Services and Welfare.....	175,150	206,239	196,238	10,001
Urban Development.....	40,000	206,746	206,746	-
Capital Outlays.....	19,334	28,155	28,155	-
Transfers to Other Funds.....	141,800	166,231	166,231	-
Total Charges to Appropriations.....	7,651,997	9,292,493	8,981,592	310,901
BUDGETARY FUND BALANCE, JUNE 30, 2007....	\$ (675,480)	\$ (675,480)	\$ (442,561)	\$ 232,919

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 31).....	\$ 8,539,031
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	<u>675,480</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18).....	<u>\$ 9,214,511</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 31).....	\$ 8,981,592
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.....	(384,696)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes.....	465,555
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	<u>(166,231)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18).....	<u>\$ 8,896,220</u>

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

Budgetary Fund Balance, June 30, 2007.....	\$ (442,561)
Timing Differences:	
Non-budgetary Items.....	290,727
Change in Encumbrances.....	<u>(80,859)</u>
Unrestricted Fund Balance, June 30, 2007.....	<u>\$ (232,693)</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, 2007

2006-07

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child and Adult Care Food Program	10.558	02-CH-9944	\$ 654,794
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	N/AV	201,346
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP)	14.228	N/AV	1,165,354
Pass-Through State Department of Family:			
Emergency Shelter Grant (ESG)	14.231	N/AV	32,998
Total U.S. Department of Housing and Urban Development			<u>1,399,698</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through State – Office of Governor Authorized Representative (GAR):			
Public Assistant Grants	83.544	N/AV	293,768
U.S. Department of Health and Human Services:			
Pass-Through Office of the Governor – Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	N/AV	10,100
Pass-Through INSEC:			
Community Services Block Grant	93.569	N/AV	30,006
Pass-Through Administration for the Childhood Care and Integral Development:			
Head Start Program	93.600	02-CH-9944	6,685,801
Total U. S. Department of Health and Human Services			<u>6,725,907</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>9,074,167</u>

continue

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$9,074,167</u>
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico State Emergency Management Agency:			
Hazard Mitigation Grant (HMGP)	97.039	N/A/V	36,500
Homeland Security Grant Program	97.067	N/A/V	<u>30,000</u>
Total U.S. Department of Homeland Security			<u>66,500</u>
U.S. Department of Transportation:			
Pass-Through Puerto Rico Traffic Safety Commission:			
State and Community Highway Safety	20.600	N/A/V	<u>1,989</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$9,142,656</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Orocovis, Puerto Rico**. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.
- D. For the Section 8 – Rental Housing Choice Vouchers, the amount presented in the Schedule is the total revenues received from HUD. This policy is consistent with HUD's interpretation of Accounting Issue #10, which states that for the subsidy programs (such as Section 8), the federal awards expended would equal the net ACC subsidy for the PHA's fiscal period under audit.

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 MAJOR PROGRAMS

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

END OF NOTES



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Orocovis, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2007, which collectively comprise the **Municipality's** basic financial statements and has issued our report thereon dated December 7, 2007. The report on was qualified because we were unable to obtain sufficient evidence to certain infrastructure capital assets in governmental activities required by accounting principle generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the **Municipality's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Municipality's** financial statements that is more than inconsequential will not be prevented or detected by the **Municipality's** internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2007-II-1 to be significant deficiency in internal control over financial reporting.

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



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

Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2007-II-1.

We noted certain matters that we reported to management of **Municipality** in a separate letter dated December 7, 2007.

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

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

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Caguas, Puerto Rico
December 7, 2007





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

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

Compliance

We have audited the compliance of the **Municipality of Orocovis, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The **Municipality's** major federal programs are identified in the summary of auditors' result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2007. However, the results of our auditing procedures disclosed other noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-III-01 through 2007-III-04.

Internal Control Over Compliance

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



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

Page 2

A *control deficiency* is the **Municipality's** internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the **Municipality's** ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the **Municipality's** internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-III-01 through 2007-III-04 to be significant deficiencies.

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

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

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

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

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Caguas, Puerto Rico
December 7, 2007



PART III
FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

● Significant deficiency (ies) identified? Yes None Reported

● Material weakness(es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

● Significant deficiency (ies) identified? Yes None Reported

● Material weakness (es) identified? Yes No

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
93.600	Head Start Program
14.228	State Block Grant Program

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

Auditee qualified as low-risk auditee? Yes No

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 2007-II-01
CRITERIA	Accounting principles generally accepted in the United States of America require capital assets to be properly identified, valued and recorded in the Municipality's accounting records and accordingly, reported in the basic financial statements.
CONDITION	It was noted in our tests of property and equipment records that the Municipality did not follow policies and procedures in order to account for infrastructure capital assets and to maintain adequate and updated inventory records. An undeterminable number of municipal roads have not been identified, segregated and valued by the Municipality .
CAUSE	Municipality has not established adequate internal controls to assure that infrastructure inventory records are complete and that valuation of such assets is accurate.
EFFECT	Municipality is not presenting all capital assets fairly for financial statement purposes since infrastructure is not complete and is not properly valued.
RECOMMENDATION	We recommend Municipality to take the necessary steps to properly identify and value all municipal roads and complete its infrastructure inventory records, to present accurate amounts of all capital assets.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	During this year the Municipality will contract an engineer in order to perform the appraisal of all the land related to the infrastructure and other capital assets.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2007-III-01
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE- OFFICE OF THE COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENTS	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CRITERIA	Code of Federal Regulations, 24 CFR, Part 570 Subpart H, Section 570.482 (f) (6), the state and its grant recipients must maintain sufficient records to demonstrate the level of public benefit, based on the above standards, that is actually achieved upon completion of the CDBG-assisted economic development activities.
CONDITION	We noted in our tests of certification for participants of the Housing Rehabilitation Assistance Program, that the Municipality does not appropriately document the process of housing rehabilitation. We found cases that did not document the approval of the amount assigned for the housing rehabilitation of the participant; in one of these cases the amount assigned for the participant was not clear. Also, we found a participant's record that the standard document prepared by the Municipality to document the materials received by the participant was signed before the date materials were received and were requested; also, the document of an intermediate visit indicated that a work was done, but the materials for it were received after that visit. In addition, we found one case that the intermediate visit did not have the signature of the participant.
CAUSE	Municipality is not verifying that the required procedures for the approval and subsequent supervision of the housing rehabilitation are properly documented.
EFFECT	Municipality may incur in unallowable costs if they don't verify that the donations are used for the purpose established.
RECOMMENDATION	We recommend Municipality to establish the internal controls necessary to ensure that all the process related to the Housing Rehabilitation Assistance Program are properly documented.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality has established the internal controls necessary to ensure that all the process related to the Housing Rehabilitation Assistance Program are properly documented. All files have been check-out to verify that they contain all documents with the information required.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2007-III-02
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE- OFFICE OF THE COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENTS	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CRITERIA	Code of Federal Regulations, 24 CFR, Part 85, Subpart C, Section 85.20(b)(3), states that the financial management systems of other grantees and subgrantees must meet the following standards: Effective control over and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
CONDITION	It was noted in our tests of internal control over the income and cash process, that the Municipality made unintentional deposits of SBGP funds by the amount of \$107,487 in the Municipality's current operations bank account. This amount was detected and reimbursed during the preparation of the bank reconciliation.
CAUSE	New Official Collection employee erroneously deposited this amount in the incorrect account. Inadequate internal control procedures over independent check were implemented to assure that all revenues are deposited in the correct account.
EFFECT	Municipality deposit Federal Funds in the incorrect account causing an overdraft to the SBGP account.
RECOMMENDATION	We recommend Municipality to establish the internal controls necessary to be sure that all federal funds are deposited in their accounts.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The internal control necessary has been established to ensure that all federal awards are deposited in their accounts. The Finance Department has appointed an Employee to give follow-up when federal funds are received to notify the Federal Program Office of the money received immediately to proceed with payments as required by the Federal Regulations.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2007-III-03
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE- OFFICE OF THE COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENTS	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	CASH MANAGEMENT
CRITERIA	Code of Federal Conduct, Subpart I, 24 CFR, Section 570.489 (c) (1), states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities, according with Treasury Circular 1075.
CONDITION	In our tests of cash management we noted that Municipality takes from twelve (12) to seventeen (17) labor days to disburse requested funds since the date they were received.
CAUSE	Municipality did not maintain appropriate cash management procedures in order to disburse the received funds in a minimum time.
EFFECT	Municipality had excess cash balance that did not disburse in a minimum time since the receiving date.
RECOMMENDATION	We recommend Municipality to establish the internal controls necessary to minimize the time elapsing between the receiving of funds and the disbursement of them.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality of Orocovis established the time elapsing between the receiving of funds and the disbursement of them.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2007-III-04
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE- OFFICE OF THE COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENTS	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CRITERIA	Code of Federal Conduct, 24 CFR, Section 85.32 (c) (1), states that equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency.
CONDITION	We noted, in our tests of equipment management that there were transfer of equipments acquired between 1993 and 2002 to the Finance, Public Works, and Human Resources Departments of the Municipality without previous authorization of the pass-through-agency.
CAUSE	Municipality did not maintain appropriate procedures for the transfer of equipments acquired with federal funds.
EFFECT	Municipality did not requested authorization of grantor agency for transfer of equipment to Departments of the Municipality .
RECOMMENDATION	We recommend Municipality to establish the internal controls necessary to request authorization of the pass-through-agency for the transfer of equipment acquired with federal funds.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality will request authorization of the pass-through agency for the transfer of equipment acquired with federal funds.

END OF SCHEDULE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2004

Finding Number	04-III-03	Special Tests and Provisions
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Systems and procedures were corrected.	

FISCAL YEAR 2006

Finding Number	06-III-01	Allowable Costs/Cost Principles
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Systems and procedures were corrected.	

(2) Audit Findings not Corrected or Partially Corrected:

Finding Number	06-III-02	Allowable Cost/Cost Principles
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments	The internal control has been established to ensure that all the process related to the Housing Rehabilitation Assistance Program is properly documented as is established in the Code of Federal Regulations, 24 CFR, Part 570, Subpart H, Section 570.482 (f) (6).	

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

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MUNICIPAL

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RECIBIDO
UNIDAD DE CORREO

MUNICIPIO DE OROCOVIS

**PLAN DE ACCIÓN CORRECTIVA
SINGLE AUDIT**

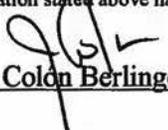
30 DE JUNIO DE 2007

MUNICIPALITY OF OROCOVIS

**CORRECTIVE ACTION PLAN FOR THE
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2007**

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
07-II-01	Mr. Rafael Rivera Finance Director	The Municipality of Orocovis, take the necessary steps to properly identify and value all municipal roads and complete its infrastructure inventory records, to present accurate amounts of all capital assets.	During this year, the Municipality will contract an engineer in order to perform the appraisal of all the land related to the infrastructure and other capital assets.	In process
07-III-01	Mr. Francisco Guevara Federal Programs Office Director	The Municipality of Orocovis, establish the internal controls necessary to ensure that all the process related to the Housing Rehabilitation Assistance Program are properly documented.	The Municipality has established the internal controls necessary to ensure that all the process related to the Housing Rehabilitation Assistance Program are properly documented. All files have been check-out to verify that they contain all documents with the information required.	January 2008
07-III-02	Mr. Francisco Guevara Federal Programs Office Director	The Municipality of Orocovis, established the internal controls necessary to be sure that all federal funds are deposited in their accounts.	The internal control necessary has been established to ensure that are federal funds are deposited in their accounts. The Finance Department has appointed an Employee to give follow-up when federal funds are received to notify the Federal Program Office of the money received	January 2008

The information stated above has been determined to be accurate based upon information available as of _____


Jesús E. Colón Berlingeri

Name

Position: Mayor

**MUNICIPALITY OF OROCOVIS
CORRECTIVE ACTION PLAN FOR THE
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2007**

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
			Immediately to proceed with payments as required by the federal regulations.	
2007-III-03	Mr. Francisco Guevara Federal Programs Office Director	The Municipality established the internal controls necessary to minimize the time elapsing between the receiving of funds and the disbursement of them.	The Municipality of Orocovis established the time elapsing between the receiving of funds and the disbursement of them.	January 2008
2007-III-04	Mr. Francisco Guevara Federal Programs Office Director	The Municipality of Orocovis established the internal controls necessary to request authorization of the pass-through-agency for the transfer of equipment acquired with federal funds.	The Municipality will request authorization of the pass-through-agency for the transfer of equipment acquired with federal funds.	January 2008

Initials FGG