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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SABANA GRANDE

AUDITORIA 2006-2007

30 DE JUNIO DE 2006

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

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

The management of Municipality of Sabana Grande, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2007. The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2004. The financial statements associated with it are described in the following narrative as well as in the Notes to Financial Statements.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The net assets of the Municipality exceeded its liabilities at June 30, 2007 by \$21.8 million and at June 30, 2006 by \$20.4 million.
- ❖ The Municipality's total net assets increased by \$1.5 million during 2007 and during 2006 the net assets decreased by \$2.2 million.
- ❖ As of June 30, 2007, the Municipality's governmental funds reported combined ending fund balances of \$7.8 million, a decrease of \$700 thousand from the prior year.
- ❖ At June 30, 2007, the Unreserved (Deficit) for the General Fund was \$1.6 million.
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2007 were \$23 million.
- ❖ The investment in capital assets for this year was \$1.4 million.
- ❖ Loans principal payments were \$405 thousand and \$405 thousand in 2007 and 2006, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continuation)

Government-wide Financial Statements (Continuation)

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, human services and welfare, culture and recreation, education and urban development. Property taxes, municipal license tax, state and federal grants finance most of these activities.

Fund Financial Statements

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 Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this requirement.

Notes to the Basic 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.

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continuation)

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental 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 \$21.8 million as of June 30, 2007 versus \$20.4 million as of June 30, 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

Table 1		
Statement of Net Assets		
As of June 30, 2007		
	2007	2006
Current and non-current assets .	\$ 16,585,697	\$ 15,485,164
Capital assets	<u>17,039,569</u>	<u>16,299,494</u>
Total Assets	<u>33,625,266</u>	<u>31,784,658</u>
Current liabilities	1,344,058	517,458
Deferred revenues	1,058,120	1,201,262
Long-term liabilities	<u>9,416,767</u>	<u>9,622,009</u>
Total Liabilities	<u>11,818,945</u>	<u>11,340,729</u>
Net Assets:		
Investment in capital assets	13,440,232	11,710,494
Restricted	14,642,645	13,881,740
Deficit	<u>(6,276,556)</u>	<u>(5,148,305)</u>
Total Net Assets	<u>\$ 21,806,321</u>	<u>\$ 20,443,929</u>

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continuation)

Governmental Net Assets (Continuation)

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment); less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related 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 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Municipality's ongoing obligations to citizens and creditors.

Total Net Assets of the Municipality's governmental activities were \$21.8 million. The Unrestricted (Deficit) was approximately of \$6.3 million at June 30, 2007, an increase of approximately \$1.1 million from prior year due principally to the general fund deficit.

Governmental Activities

Governmental activities increased the Municipality's net assets. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$8.3 million. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$1.5 million. The Municipality experienced a substantial increase in property taxes and construction taxes due to growth in new constructions and the assessed valuation of property within the Municipality. Also, in 2006 1.5% sales tax was imposed by the Municipality commencing on November 15, 2006.

The cost of all governmental activities this year was \$21.8 million. Table 2 presents the cost of each of the Municipality's largest programs.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continuation)

Table 2		
Changes in Net Assets		
For Fiscal Years Ending June 30, 2007		
	2007	2006
Revenues:		
Program Revenues:		
Federal Grants and Contributions	\$ 8,250,269	\$ 6,423,088
State Grants and Contributions	5,163,735	3,118,117
General Revenues:		
Property Taxes	2,059,834	2,184,858
Volume of Business Taxes	989,082	995,024
Sales Taxes	488,204	-
Construction Taxes	154,582	117,996
Intergovernmental	4,901,907	4,846,657
Other General Revenues	<u>1,255,041</u>	<u>927,827</u>
Total revenues	<u>23,262,654</u>	<u>18,613,567</u>
Expenses:		
General Administration	4,703,477	4,964,351
Public Safety	467,963	513,487
Public Works	2,416,525	2,478,231
Health and Sanitation	115,086	149,103
Culture and Recreation	421,131	420,062
Solid Waste Disposal	244,866	264,191
Human Services and Welfare	5,828,360	5,152,983
Urban Development	1,537,932	978,088
Education	5,573,535	5,585,114
Interest Costs	<u>444,011</u>	<u>409,538</u>
Total expenses	<u>21,752,886</u>	<u>20,915,148</u>
Changes in net assets	1,509,768	(2,301,581)
Net assets – beginning, as Restated	<u>20,296,553</u>	<u>22,745,510</u>
Net assets – ending	<u>\$ 21,806,321</u>	<u>\$ 20,443,929</u>

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

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

Comparative Condensed Balance Sheet - Governmental Funds
 June 30, 2007 and 2006

	2007	2006
Assets:		
Total assets - major governmental funds	\$ 13,012,546	\$ 12,072,077
Total assets - other governmental funds	4,459,849	4,355,291
Combined total assets	17,472,395	16,427,368
Liabilities:		
Total liabilities - major governmental funds	8,977,686	7,620,290
Total liabilities - other governmental funds	689,901	439,656
Combined total liabilities	9,667,587	8,059,946
Fund balances:		
Reserved - major governmental funds	5,590,031	6,443,698
Reserved - other governmental funds	3,769,948	3,453,545
Unreserved - major governmental funds	(1,555,171)	(1,529,821)
Combined total fund balances	7,804,808	8,367,422
Total liabilities and fund balances	\$ 17,472,395	\$ 16,427,368

The total assets increased by approximately \$1 million due to an increase of accounts receivable of the CDSBG federal program from \$2.3 to \$3.3 millions. The total liabilities increased by approximately \$1.6 million due principally to increase in accounts payable by \$604,000, increase in deferred revenues by \$734,000 in the CDSBG federal program and increase of compensated absences of \$262,000. The fund balances decreased by some \$563,000 due principally to a decrease of the state assignment fund balance.

The total revenue increased by \$2.6 millions due principally to an increase of sales tax, Head Start and other governmental funds. The expenditures increased by approximately \$1.2 millions due to principally Head Start and other governmental funds.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (Continuation)

Governmental Funds (Continuation)

**Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Year Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Revenues:		
Total revenues - major governmental funds	\$ 17,229,150	14,214,413
Total revenues - other governmental funds	5,053,815	5,464,464
Combined total revenues	<u>22,282,965</u>	<u>19,678,877</u>
Expenditures:		
Total expenditures - major governmental funds	18,255,104	16,435,545
Total expenditures - other governmental funds	4,771,546	5,413,054
Combined total expenditures	<u>23,026,650</u>	<u>21,848,599</u>
Excess of revenues over (expenditures)	<u>(743,685)</u>	<u>(2,169,722)</u>
Other financing sources (uses), net:		
Other financing sources (uses), net - major governmental funds	(397,351)	(372,586)
Other financing sources, net - other governmental funds	397,351	372,586
Combined other financing sources (uses), net	<u>-</u>	<u>-</u>
Net change in fund balance	(743,685)	(2,169,722)
Restatement adjustment	-	181,071
Fund balance, at beginning of fiscal year	<u>8,548,493</u>	<u>10,537,144</u>
Fund balance, at end of fiscal year	<u>\$ 7,804,808</u>	<u>\$ 8,548,493</u>

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spend able resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2007, the Municipality's governmental funds reported combined ending fund balances of \$7.8 million, a decrease of approximately \$743 thousand from the prior year.

The Municipality has an Unreserved (Deficit) of \$1.6 million in its Operating Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate prior year obligations \$178 thousand, (2) to pay debt service \$260 thousand and (3) for other restricted purposes \$8.9 million.

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

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2007 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ Revenues primarily increased from collections of licenses and permits.
- ❖ Reduction in the Budget of Intergovernmental Revenues.
- ❖ The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2007 amounted to \$17 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$1.4 million. Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provide services to our citizens. Table 3 presents the major classes of capital assets.

Table 3
Municipality of Sabana Grande's
Capital Assets
(Net of Depreciation, In Millions)

Land	\$1.4
Construction in Progress	3.2
Buildings	8.9
Infrastructure	2.2
Motor Vehicles	.9
Machinery and Equipment	<u>.4</u>
Total Capital Assets	<u>\$17.0</u>

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

CAPITAL ASSET AND DEBT ADMINISTRATION (Continuation)

Long-term Debt

At June 30, 2007 the Municipality had a total of \$9.4 million in general obligations and others outstanding debts, as shown in Table 4. Of this amount, \$7 million comprises debt backed by the full faith and credit of the government and \$2.4 million is other obligations.

General Obligations	\$ 6.2
Special Notes	.8
Others	<u>2.4</u>
 Total Capital Assets	 <u>\$ 9.4</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2007 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 873-2060.



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Sabana Grande
Sabana Grande, 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 Sabana Grande, Puerto Rico**, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. We have also audited the accompanying statement of revenues and expenditures-budget and actual-budgetary basis- general fund of the Municipality for the year then ended which is presented as part of the basic financial statements. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 5 to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Sabana Grande, Puerto Rico**, as of June 30, 2007, and the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT (Continued)

In addition, in our opinion the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Sabana Grande, Puerto Rico**, as of June 30, 2007, and the respective changes in financial position, thereof for the 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 above present fairly, in all material respects, the budgetary comparison of the general fund for the fiscal year then ended in conformity with the budgetary (statutory) basis of accounting, as described in Note 1.

The Management's Discussion and Analysis on pages I through IX is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

December 7, 2007
San Juan, Puerto Rico

Nieves Velazquez & Co., P.S.C.

Stamp No. 2238662 the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
Cash and Investments, including cash equivalent of \$5,086,781	\$ 8,145,891
Cash with Fiscal Agent	1,746,472
Receivables (net):	
Property Taxes	175,303
Federal Grants	6,448,691
Others	69,340
	<u>16,585,697</u>
Capital Assets:	
Property, Plant and Equipment	22,963,495
Accumulated Depreciation	(5,923,926)
Total Capital Assets	<u>17,039,569</u>
TOTAL ASSETS	<u><u>33,625,266</u></u>
 LIABILITIES:	
Accounts Payable and Accrued Expense	1,279,015
Accrued Interest	65,043
Deferred Revenue	1,058,120
Long-Term Liabilities:	
Due within One Year	1,042,849
Due in More than One Year	8,373,918
Total Liabilities	<u><u>11,818,945</u></u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	13,440,232
Restricted for:	
Head Start Program	3,063,942
State Assignment	5,047,055
Community Development Block Grant	3,158,782
Municipal Hospital	336,581
Debt Service	259,584
Others	2,776,701
Unrestricted (Deficit)	(6,276,556)
Total Net Assets	<u><u>\$ 21,806,321</u></u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Programa Revenues</u>			<u>Net (Expense) Revenue (See Next Page)</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,164,837	-	-	-	(2,164,837)
General Government	2,538,640	-	20,741	-	(2,517,899)
Public Safety	467,963	-	143,857	-	(324,106)
Public Works	2,416,525	-	-	-	(2,416,525)
Culture and Recreation	421,131	-	-	-	(421,131)
Health and Sanitation	115,086	-	-	-	(115,086)
Solid Waste Disposal	244,866	-	-	-	(244,866)
Human Services and Welfare	5,828,360	1,115,941	2,874,571	-	(1,837,848)
Urban Development	1,537,932	-	1,779,325	2,105,766	2,347,159
Education	5,573,535	-	5,373,803	-	(199,732)
Interest on Long-Term Debt	444,011	-	-	-	(444,011)
Total Governmental Activities	\$ 21,752,886	1,115,941	10,192,297	2,105,766	(8,338,882)

General Revenues:

Taxes:

Property, levied for General Purposes	1,718,324
Property, levied for Debt Services	341,510
Volume of Business	989,082
Sales	488,204
Intergovernmental	4,901,907
Rent	167,535
Licences and Permits	158,023
Miscellaneous	1,084,065
Total General Revenues	9,848,650

CHANGE IN NET ASSETS

1,509,768

Net Assets - Beginning of Year - Restated (Note 14)

20,296,553

NET ASSETS - END OF YEAR

\$ 21,806,321

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

	General Fund	Head Start Fund	State Assignment Fund	CDBG Fund	Municipal Hospital Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and Investments, including cash equivalent of \$5,086,781	\$ 269,422	35,362	5,427,309	5,207	373,581	2,035,010	8,145,891
Cash with Fiscal Agent	16,967	-	-	-	-	1,729,505	1,746,472
Receivables:							
Property Taxes	167,294	-	-	-	-	8,009	175,303
Sales Tax	61,297	-	-	-	-	-	61,297
Federal Grants	-	3,052,635	-	3,346,528	-	49,528	6,448,691
Due from Other Funds	256,944	-	-	-	-	629,754	886,698
Others	-	-	-	-	-	8,043	8,043
Total Assets	\$ 771,924	3,087,997	5,427,309	3,351,735	373,581	4,459,849	17,472,395
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable and Accrued Expense Liabilities	\$ 332,496	24,055	258,758	169,651	37,000	59,824	881,784
Bonds and Notes Payable	-	-	-	-	-	177,000	177,000
Accrued Interest	-	-	-	-	-	65,043	65,043
Due to Governmental Units	200,327	-	-	-	-	19,904	220,231
Due to Other Funds	629,754	-	121,496	23,302	-	112,146	886,698
Deferred Revenue:							
Volume of Business Tax	802,136	-	-	-	-	-	802,136
Property Taxes	167,294	-	-	-	-	-	167,294
Federal Grants	-	3,052,635	-	3,158,782	-	255,984	6,467,401
Total Liabilities	2,132,007	3,076,690	380,254	3,351,735	37,000	689,901	9,667,587
Fund Balances:							
Reserve For:							
Encumbrances	178,121	-	-	-	-	-	178,121
Debt Service	-	-	-	-	-	259,584	259,584
Other Purposes	16,967	11,307	5,047,055	-	336,581	3,510,364	8,922,274
Unreserved (Deficit)	(1,555,171)	-	-	-	-	-	(1,555,171)
Total Fund Balances	(1,360,083)	11,307	5,047,055	-	336,581	3,769,948	7,804,808
TOTAL LIABILITIES AND FUND BALANCES	\$ 771,924	3,087,997	5,427,309	3,351,735	373,581	4,459,849	17,472,395

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	Head Start Fund	State Assignment Fund	CDBG Fund	Municipal Hospital Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property Taxes	\$ 1,718,324	-	-	-	-	341,510	2,059,834
Volume of Business Taxes	989,082	-	-	-	-	-	989,082
Federal Assistances	-	4,483,689	-	734,058	-	2,187,593	7,405,340
In - Kind	-	1,050,185	-	-	-	-	1,050,185
Intergovernmental	4,901,907	-	472,897	-	-	2,524,712	7,899,516
Health Services	-	-	-	-	1,115,941	-	1,115,941
Licenses and Permits	158,023	-	-	-	-	-	158,023
Sales Tax	488,204	-	-	-	-	-	488,204
Rent	167,535	-	-	-	-	-	167,535
Miscellaneous	949,305	-	-	-	-	-	949,305
Total Revenues	9,372,380	5,533,874	472,897	734,058	1,115,941	5,053,815	22,282,965
EXPENDITURES							
Current:							
Mayor and Municipal Legislature	2,093,204	-	-	-	-	-	2,093,204
General Government	2,730,388	-	-	-	-	-	2,730,388
Public Safety	304,569	-	-	-	-	145,863	450,432
Public Works	2,220,545	-	-	-	-	-	2,220,545
Culture and Recreation	399,579	-	-	-	-	-	399,579
Health and Sanitation	352,086	-	-	-	-	-	352,086
Human Services and Welfare	1,279,859	-	30,498	-	1,131,410	2,073,207	4,514,974
Urban Development	-	-	1,113,774	884,130	-	592,840	2,590,744
Education	-	5,533,912	-	-	-	1,089,808	6,623,720
Capital Outlay	-	-	141,855	310	38,985	20,817	201,967
Debt Service:							
Principal	-	-	-	-	-	405,000	405,000
Interest and Other Charges	-	-	-	-	-	444,011	444,011
Total Expenditures	9,380,230	5,533,912	1,286,127	884,440	1,170,395	4,771,546	23,026,650
Excess (deficiency) of revenues over (under) expenditures	(7,850)	(38)	(813,230)	(150,382)	(54,454)	(282,269)	(743,685)
OTHER FINANCING SOURCES (USES)							
Transfers - In	-	-	-	-	-	397,351	397,351
Transfers - Out	(397,351)	-	-	-	-	-	(397,351)
Total Other Financing Sources and Uses	(397,351)	-	-	-	-	397,351	-
Net Change in Fund Balances	(405,201)	(38)	(813,230)	(150,382)	(54,454)	679,620	(743,685)
Fund Balance - Beginning as Restated (Note13)	(954,882)	11,345	5,860,285	150,382	391,035	3,090,328	8,548,493
Fund Balances - Ending	\$(1,360,083)	11,307	5,047,055	-	336,581	3,769,948	7,804,808

$$\begin{array}{r} 11,108,135 \\ - 954,882 \\ \hline 10,153,253 \end{array}$$
 [Handwritten signature and date: 10/04/2008]

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total Fund Balances – Governmental Funds (Page 5) \$ 7,804,808

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 3) 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 Asset	\$ 4,593,571	
Depreciable Capital Assets	15,889,729	
Infrastructure Assets	2,480,195	
Accumulated Depreciation	<u>(5,923,926)</u>	
Total Capital Assets		17,039,569

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:

Head Start	3,052,635	
Community Development State Block Grant	3,158,782	
Municipal Revenue Collection Center	<u>167,294</u>	
Total Deferred Revenues		6,378,711

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

General Bonds and Notes Payable	(7,020,000)	
Compensated Absences	(1,838,720)	
Municipal Revenue Collection Center	<u>(558,047)</u>	
Total Long-Term Liabilities		<u>(9,416,767)</u>

Total Net Assets of Governmental Activities (Page 3) \$21,806,321

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2007**

Net Change in Fund Balances – Total Governmental Funds (Page 6) \$ (743,685)

Amounts reported for Governmental Activities in the Statement of Activities (Page 4)
are different because:

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

Urban Development and Capital Outlay	\$1,412,546	
Depreciation Expense	<u>(672,471)</u>	
Excess of Capital Outlay over Depreciation Expense		740,075

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	4,229,796
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Revenues in the Statement of Revenues that correspond to Prior Year resources are recorded as Revenue in the Statement of Activities	(3,250,107)
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Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were	405,000
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Some expenses reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental funds.
These activities consist of:

Decrease in Compensated Absences	\$ 79,809	
Decrease in MRCC Debt	<u>48,880</u>	
Total Additional Expenditures		<u>128,689</u>

Change in Net Assets of Governmental Activities (Page 4) \$ 1,509,768

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note A)	Positive (Negative)
BUDGETARY FUND DEFICIT, JUNE 30, 2006	\$ (954,882)	(954,882)	(954,882)	-
Resources (Inflows)				
Property Taxes	1,718,324	1,718,324	1,718,324	-
Volume of Business Taxes	1,100,000	1,100,000	989,082	(110,918)
Intergovernmental Revenues	5,074,490	5,074,490	4,901,907	(172,583)
License and Permits	502,000	502,000	158,023	(343,977)
Rent	225,675	225,675	167,535	(58,140)
Miscellaneous	1,020,600	1,050,500	1,394,718	344,218
Total Resources (Inflows)	9,641,089	9,670,989	9,329,589	(341,400)
Amounts Available for Appropriation	8,686,207	8,716,107	8,374,707	(341,400)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	1,801,981	2,264,798	2,184,219	80,579
General Government	2,516,918	2,344,999	2,184,727	160,272
Public Safety	358,464	304,973	304,569	404
Public Work	2,408,724	2,326,869	2,239,234	87,635
Culture and Recreation	426,066	407,578	399,924	7,654
Health and Sanitation	358,494	355,606	352,086	3,520
Human Services and Welfare	1,369,454	1,265,178	1,281,902	(16,724)
Transfer to Other Funds	400,988	400,988	397,351	3,637
Total Charges to Appropriations	9,641,089	9,670,989	9,344,012	326,977
BUDGETARY FUND DEFICIT, JUNE 30, 2007	\$ (954,882)	(954,882)	(969,305)	(14,423)

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND NOTES
JUNE 30, 2007**

NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) “Available for Appropriation” from the Budgetary Comparison Schedule (Page 9)	\$8,374,707
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	954,882
Prior and Current Adjustments to Revenues	<u>42,791</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (Page 6)	<u>\$9,372,380</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) “Total Charges to Appropriation” from the Budgetary Comparison Schedule (Page 9)	\$9,344,012
Difference – Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes	164,680
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(149,638)
Transfers to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose	(397,351)
Adjustments to Expenditures	<u>418,527</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (Page 6)	<u>\$9,380,230</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND NOTES
JUNE 30, 2007**

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

Budgetary Fund Deficit, June 30, 2007 (Page 9)	\$ (969,305)
Timing Differences:	
Net Change in Encumbrances	(22,493)
Non-budgetary Items	<u>(563,373)</u>
Unreserved Deficit, June 30, 2007 (Page 5)	<u><u>\$(1,555,171)</u></u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Sabana Grande, Puerto Rico (Municipality) was founded in the year 1813, 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 as applicable to governmental units. The following is a summary of the more significant of such policies.

The accompanying basic financial statements of the Municipality have been prepared in conformity with 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.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the fiscal year 2003-2004: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2007, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

A. Financial Reporting Entity (Continuation)

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. 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 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 as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

B. Measurement Focus and Basis of Accounting (Continuation)

Governmental Fund Financial Statements (Continuation)

In applying the “susceptible to accrual” concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Non-exchange 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 recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee’s vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2007, has been reported only in the government-wide financial statements.

C. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

C. *Financial Statement Presentation (Continuation)*

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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spend able resources) with capital assets and long-term obligations.

The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *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, cash balances of the related notes and bonds 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

C. Financial Statement Presentation (Continuation)

Government-Wide Financial Statements (Continuation)

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 is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the Balance Sheet, the Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of 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. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

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 separates explanation for each difference.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

C. *Financial Statement Presentation (Continuation)*

Governmental Fund Financial Statements (Continuation)

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.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. 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.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignments is to development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

C. Financial Statement Presentation (Continuation)

Governmental Fund Financial Statements (Continuation)

Municipal Hospital – This is the fund used to account for all the transactions of the Municipality's Hospital (CDT). The primary objectives of this fund is to provide to the community medical services such as emergency doctors, dentists and other specialists. In addition provides services such as medical laboratories, X rays and others.

D. Budgetary Data

The Municipality 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 encumbrances 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 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 budget during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

D. Budgetary Data (Continuation)

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior to May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date established by Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

D. Budgetary Data (Continuation)

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Special Revenue 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.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

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 a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

E. Cash, Cash Equivalent 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.

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

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 Government Development Bank for Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

F. Receivables

Receivables are stated net of estimated allowances for un-collectible accounts, 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 expenses/expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. 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. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u><i>CAPITAL ASSETS</i></u>	<u><i>YEARS</i></u>
Buildings	50
Improvement Other Than Buildings	50
Equipments and Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

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:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

I. Compensated Absences (Continuation)

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.
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 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 represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2007.

<u>BALANCE</u> <u>JULY 1, 2006</u> <u>(RESTATED)</u>	<u>NEW</u> <u>ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$1,918,529	-	79,809	1,838,720	677,630	1,161,090

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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 reciprocal and nonreciprocal interfund activities recorded among governmental funds in the accompanying GFFS:

- ✓ ***Interfund loans*** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ✓ ***Interfund transfers*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ✓ ***Interfund reimbursements*** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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.

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.

O. Future Adoption of Accounting Pronouncements

In April 2004, GASB issued its Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* (GASB No. 43). This statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB plans, including post-employment healthcare, life insurance, etc.) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed in this statement is generally consistent with the approach adopted in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with certain modifications to reflect differences between pension plans and OPEB plans. The requirements of this statement are effective for the Municipality's fiscal year commencing on July 1, 2006.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

O. Future Adoption of Accounting Pronouncements

In June 2004, GASB issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* (GASB No. 45). This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. The requirements of this statement are effective for the Municipality's fiscal year commencing on July 1, 2007.

The Municipality's management has concluded that the future adoption of GASB Statements No. 43, and 45 will not have a significant impact on the Municipality's basic financial statements.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits are considered low at June 30, 2007.

- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2007, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2007, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2007, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully secured, pledged collaterals are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and un-collateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2007. Therefore, the Municipality's management has concluded that at June 30, 2007 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- **Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that there is no foreign exchange risk related to the Municipality's deposits at June 30, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continuation)

At June 30, 2007 the total deposits are as follows:

	MAJOR GOVERNMENTAL FUNDS						TOTAL GOVERNMENTAL FUND
	<u>GENERAL FUND</u>	<u>HEAD START FUND</u>	<u>STATE ASSIGNMENT FUND</u>	<u>CDBG FUND</u>	<u>MUNICIPAL HOSPITAL FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>	
Unrestricted:							
Cash in commercial banks, including cash equivalents of \$5,086,781							
Total unrestricted deposits	\$269,422	35,362	5,427,309	5,207	373,581	2,035,010	8,145,891
Restricted (Note 1):							
Cash in GDB, as fiscal agent	<u>16,967</u>	-	-	-	-	<u>1,729,505</u>	<u>1,746,472</u>
Total carrying amount of deposits	<u>\$286,389</u>	<u>35,362</u>	<u>5,427,309</u>	<u>5,207</u>	<u>373,581</u>	<u>2,764,515</u>	<u>9,892,363</u>

3. INTERFUND TRANSFER AND BALANCES

A. Interfund Transfers

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

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

<u>SOURCES</u>	<u>TRANSFER TO</u>	<u>AMOUNT</u>	<u>PURPOSE</u>
General Fund	Debt Services Fund	<u>\$397,351</u>	Debt payment

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2007 are summarized as follows:

<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>	<u>AMOUNT</u>
General Fund	State Assignment Fund	\$121,496
General Fund	CDBG Fund	23,302
General Fund	Other Funds	112,146
Other Funds	General Fund	<u>629,754</u>
Total		<u>\$886,698</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

4. 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:

	<u>GENERAL FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>
State Retirement System Administration	\$120,466	-
General Services Administration	79,861	-
Department of Labor and Human Resources	<u>-</u>	<u>19,904</u>
Total Due to Governmental Units	<u>\$200,327</u>	<u>19,904</u>

5. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2007 was as follows:

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2007</u>
Non-Depreciable Capital Assets:				
Land	\$ 1,395,791	-	-	1,395,791
Construction in progress	<u>2,077,284</u>	<u>1,120,496</u>	-	<u>3,197,780</u>
Total Non-Depreciable Capital Assets	<u>3,473,075</u>	<u>1,120,496</u>	-	<u>4,593,571</u>
Depreciable Capital Assets:				
Buildings	10,529,733	94,449	-	10,624,182
Infrastructure	2,480,195	-	-	2,480,195
Machinery and Equipment	1,720,085	197,601	-	1,917,686
Motor Vehicles	<u>3,347,861</u>	-	-	<u>3,347,861</u>
Total Depreciable Capital Assets	<u>18,077,874</u>	<u>292,050</u>	-	<u>18,369,924</u>
Total Cost Basis of Capital Assets	<u>21,550,949</u>	<u>1,412,546</u>	-	<u>22,963,495</u>
Less Accumulated Depreciation:				
Buildings	(1,527,570)	(191,515)	-	(1,719,085)
Infrastructure	(241,171)	(37,203)	-	(278,374)
Machinery and Equipment	(1,331,111)	(146,429)	-	(1,477,540)
Motor Vehicles	<u>(2,151,603)</u>	<u>(297,324)</u>	-	<u>(2,448,927)</u>
Total Accumulated Depreciation	<u>(5,251,455)</u>	<u>(672,471)</u>	-	<u>(5,923,926)</u>
Total Depreciable Capital Assets (Net)	<u>12,826,419</u>	<u>(380,421)</u>	-	<u>12,445,998</u>
CAPITAL ASSETS, NET	<u>\$16,299,494</u>	<u>740,075</u>	<u>-</u>	<u>17,039,569</u>

GASB Statement No. 34 require to retroactively apply the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

5. CAPITAL ASSETS (Continuation)

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

	<u>AMOUNT</u>
Mayor and Municipal Legislature	\$ 71,633
General Government	179,776
Public Safety	17,531
Public Works	195,981
Culture and Recreation	21,552
Health and Sanitation	7,865
Human Services and Welfare	110,449
Urban Development	<u>67,684</u>
Total Depreciation Expense	<u>\$672,471</u>

6. GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Notes Payable

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 7). The special obligations long-term notes retirements are paid through retentions made by the Municipal Revenue Collection Center from the monthly advances of the property tax and subsidy sent to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

6. GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Notes Payable

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

General Obligations Bonds:

<u>Description</u>	<u>Amount</u>
\$1,305,000, Series 2003, for construction purposes, payable in annual installments ranging from \$20,000 to \$100,000, excluding interests from 4.17% to 5.31%, through July 1, 2027.	\$1,180,000
\$735,000 Series 2001, for construction purposes, payable in annual installments ranging from \$15,000 to \$75,000, excluding interests from 2.78% to 6.13%, through July 1, 2020.	595,000
\$1,760,000 Series 2001, for purchase of building, payable in annual installments ranging from \$25,000 to \$160,000, excluding interests from 5.00% to 8.00%, through July 1, 2025.	1,540,000
\$755,000 Series 2001, for operation purposes, payable in annual installments ranging from \$10,000 to \$65,000, excluding interests from 5.00% to 8.00%, through July 1, 2025.	665,000
\$105,000, Series 2000, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests from 2.70% to 7.81%, through July 1, 2009.	30,000
\$60,000, Series 2000, for construction purposes, payable in annual installments ranging from \$1,000 to \$6,000, excluding interests from 5.17% to 7.29%, through July 1, 2024.	51,000
\$454,000, Series 2002 (previously \$600,000, Series 2000), payable in annual installments ranging from \$9,000 to \$29,000, excluding interests at 4.50%, through January 1, 2027 (Water & Waste Disposal Loans & Grants).	400,000
\$140,000, Series 1999, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests from 4.865% to 6.56%, through July 1, 2023.	95,000
\$230,000, Series 1998, for construction purpose, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests from 4.865% to 6.56%, through July 1, 2022.	180,000
\$121,000, Series 2000, for operation purposes, payable in annual installments ranging from \$3,000 to \$8,000, excluding interests at 4.50%, through January 1, 2023.	96,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

6. GENERAL LONG-TERM DEBTS (Continuation)

A. General Obligations Bonds and Special Notes Payable (Continuation)

General Obligations Bonds: (Continuation)

<u>Description</u>	<u>Amount</u>
\$310,000, Series 1997, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 4.70% to 6.63%, through July 1, 2002.	240,000
\$222,000 Series 1999, for construction purposes, payable in annual installments ranging from \$6,000 to \$16,000, excluding interests at 4.50% (Water & Waste Disposal Loans & Grants), through January 1, 2021.	170,000
\$350,000 Series 1999, for construction purposes, payable in annual installments ranging from \$14,000 to \$29,000, excluding interests at 4.75% (Community Facilities Loan), through January 1, 2016.	219,000
\$350,000 Series 1998, for construction purposes, payable in annual installments ranging from \$13,000 to \$31,000, excluding interests at 5.25%, through January 1, 2015 (Community Facilities Loan)	203,000
\$361,000, Series 1984, for construction purposes, payable in annual installments ranging from \$5,000 to \$26,000, excluding interests at 5.00%, through January 1, 2008	26,000
\$605,000, Series 2005, for operation purposes, payable in annual installments ranging from \$25,000 to \$60,000 excluding interest from 5.00% to 6.00%, through July 1, 2018.	<u>490,000</u>
Total General Obligations – Bonds	<u>6,180,000</u>

Notes Payable:

\$925,000, Series 2005, for operation purposes, payable in annual installments ranging from \$40,000 to \$85,000, excluding interests from 5.50% to 7.50%, through July 1, 2020.	<u>840,000</u>
Total Notes Payable	<u>840,000</u>
Total General Obligation Bonds and Notes Payable	<u>\$7,020,000</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

6. GENERAL LONG-TERM DEBTS (Continuation)

A. General Obligations Bonds and Special Notes Payable (Continuation)

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

<u>YEAR ENDING JUNE 30,</u>	<u>PRINCIPAL PAYMENT</u>	<u>INTEREST PAYMENT</u>	<u>TOTAL PAYMENT</u>
2008	\$ 330,000	427,755	757,755
2009	316,000	409,251	725,251
2010	316,000	391,406	707,406
2011	338,000	373,200	711,200
2012	363,000	351,321	714,321
2013-2017	2,111,000	1,423,012	3,534,012
2018-2022	2,023,000	762,265	2,785,265
2023-2027	1,223,000	193,230	1,416,230
TOTAL	<u>\$7,020,000</u>	<u>4,331,440</u>	<u>11,351,440</u>

B. Other Long-Term Debts

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2006 (RESTATED)</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND ADJUSTMENT</u>	<u>BALANCE JUNE 30, 2007</u>
MRCC Debts	\$ 606,927	-	48,880	558,047
Compensated Absences	1,918,529	-	79,809	1,838,720
TOTAL	<u>\$2,525,456</u>	<u>-</u>	<u>128,689</u>	<u>2,396,767</u>

Notes Municipal Revenue Collection Center (MRCC)

Law 42- the Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and MRCC to pay off the excess of property tax advances through fiscal year 2000 and 2001. MRCC retains the payment from the property tax advances of the Municipality. The amounts retained by MRCC are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the MRCC at June 30, 2007 amounted to \$386,775.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

6. GENERAL LONG-TERM DEBTS (Continuation)

B. Other Long-Term Debts (Continuation)

Notes Municipal Revenue Collection Center (MRCC) (Continuation)

Law 146- on September 24, 2002, MRCC, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the MRCC at June 30, 2007 amounted to \$36,305.

Land Information Management System (LIMS)- the Municipality entered into a financing agreement with MRCC for the payment of the Municipality's share of the cost of an information management system, acquired by MRCC on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the MRCC at June 30, 2007 amounted to \$134,967.

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:

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2006 (RESTATED)</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND ADJUSTMENT</u>	<u>BALANCE JUNE 30, 2007</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>	<u>AMOUNTS DUE AFTER NEXT YEAR</u>
General	\$6,440,000	-	260,000	6,180,000	285,000	5,895,000
Special	985,000	-	145,000	840,000	45,000	795,000
Other Debts	<u>2,525,456</u>	-	<u>128,689</u>	<u>2,396,767</u>	<u>712,849</u>	<u>1,683,918</u>
TOTAL	<u>\$9,950,456</u>	<u>-</u>	<u>533,689</u>	<u>9,416,767</u>	<u>1,042,849</u>	<u>8,373,918</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

7. 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 8).

8. PROPERTY TAXES

These property taxes are accumulated by the Municipal Revenue Collection Center in lieu of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank for Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

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 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, 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 1.25% 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 7). 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

8. PROPERTY TAXES (Continuation)

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 of the 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 provided that net volume of business of retail business does not exceeds \$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 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 Municipality Revenue Collection Center, the amortization of the advance at end of year was not available because is in process of verification by external auditors.

The Traditional Lottery System of the Commonwealth (the Traditional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Traditional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- ✓ Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the *Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly*) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ✓ An additional amount not exceeding \$16 million, on an annual basis, is distributed to the *Municipal Equalization Fund*, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipality's Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

9. VOLUME OF BUSINESS TAX

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Sabana Grande. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2007 the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar or fiscal year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (see note 10). Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$802,136 at June 30, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

10. MUNICIPAL SALES TAXES

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Conversely, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effect) and implemented the sales and use tax ("sales tax") system. Accordingly with this law the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. Consequently, separate registration and filing forms are required of retailers.

On November 6, 2006, the Municipal Legislature of the Municipality of Sabana Grande approved the Ordinance No. 20, Series 2006-2007 establishing a citizenship contribution of 1.5% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. This Ordinance was effective on November 15, 2006 and the resources collected due to this tax assesment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

Any person/corporation is required to register with each municipality in which it conducts commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 20th day following the month in which the tax was collected.

Also, on July 29, 2007, the Governor of Puerto Rico signed into Law an ammendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant ammendments were: first, to uniform the tax rate at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%, 05% of the 6% belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund, Municipal Redention Fund and Municipal Improvements Fund; secondly the stablishment of a Local Commercial Rule and the elimination of source and nexus rules to impose the sale and use tax. These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to certain specific activities.

During fiscal year 2006-2007 the Municipality of Sabana Grande earned the amount of \$488,204 related to this citizenship contribution program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

11. 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.

12. EMPLOYEE'S RETIREMENT PLAN

The Municipality's employees participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for appointed officers.

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as *System 2000*, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantees benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

12. EMPLOYEE'S RETIREMENT PLAN (Continuation)

fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employer's contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

Municipality and other employers	9.275 percent of applicable payroll
Employees:	
Coordination plan	5.775 percent of gross salary up to \$6,600 per year, plus 8.275 percent grosses salary in excess of \$6,600
Supplementation plan	8.275 percent of gross salary. This is the only choice available to policemen, firemen and mayors

Effective January 27, 2000, participant's contributions were increased to 9% of their compensation, as provided by Act No. 45 of 2000. The Commonwealth, as sponsor, matches the participant's contributions at a rate of 8.5% of the applicable payroll. The Municipality's actual contribution amounted to \$224,516 for the year ended June 30, 2007. Contributions are established by law and are not actuarially determined.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

12. EMPLOYEE'S RETIREMENT PLAN (Continuation)

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2004.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2004.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2004.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective September 14, 2007, an increase in the amount granted on personal loans to participating employees from \$5,000 to \$15,000 and the term of payments from three years to seven years maximum.

The required contribution(s) rate in accordance with the funding policy, in dollars or as a percentage of the current year (Fiscal Year 2006-2007) covered payroll and any changes for or during the current year (describe):

Employer Contribution: 9.275% of Gross Salary

Required contribution in dollars:

ERS and System 2000 \$224,516

Actual contribution in dollars \$224,516

13. CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters amounting to approximately \$2.7 millions 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

13. CONTINGENCIES (Continuation)

A. CLAIMS AND JUDGMENTS (Continuation)

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. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

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.

14. ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

Changes and restatements for the adoption of pronouncements and others are explained below:

NET ASSETS RESTATEMENTS

The following schedule reconciles the June 30, 2006 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2006.

Net Assets:

Net Assets, as Previously Reported, At June 30, 2006	\$20,443,929
Adjustment to Compensated Absences	(328,447)
Interfund transaction not recorded in the General Fund	153,253
GAAP Conversion of Section 8 Program	<u>27,818</u>
Beginning Net Assets, as Restated, At July 1, 2006	<u>\$20,296,553</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

14. ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS (Continuation)

FUND BALANCES RESTATEMENTS

The following schedule reconciles the June 30, 2006 Fund Balances, as previously reported to Beginning Fund Balances, as restated, July 1, 2006.

	<i><u>GENERAL FUND</u></i>	<i><u>MUNICIPAL HOSPITAL FUND</u></i>	<i><u>OTHER GOVERNMENTAL FUNDS</u></i>
Fund Balance, as Previously Reported, June 30, 2006	\$(1,108,135)	-	3,453,545
Major Fund Reclassification	-	391,035	(391,035)
Interfund transaction not recorded	153,253	-	-
GAAP Conversion of Section 8 Program	-	-	27,818
Beginning Fund Balance, as Restated, July 1, 2006	\$(<u>954,882</u>)	<u>391,035</u>	<u>3,090,328</u>

15. SUBSEQUENT EVENT

On December 5, 2007, the Municipal Assembly approved a \$330,000 loan obtained from the Government Development Bank for Puerto Rico. This loan is for the purchase of equipment and will be paid in annual installments ranging from \$35,000 to \$60,000 at variable interest rate through year 2015.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

YEAR ENDED JUNE 30, 2007

ADDITIONAL REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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

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

We have audited the basic financial statements of **the Municipality of Sabana Grande of the Commonwealth of Puerto Rico (The Municipality)** as of and for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007, which was unqualified at the fund financial statements level, but adverse at the government wide financial statements because we were unable to obtain competent evidential matter related to the Infrastructure Capital Assets reported in the Governmental Activities. 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.

Compliance

As part of obtaining reasonable assurance about whether **the Municipality's** basic financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instances of noncompliance that is required to be reported under Government Auditing Standards. This noncompliance instance is described in the accompanying Schedule of Findings and Questioned Costs as Items 07-II-1.

**INDEPENDENTS AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continuation)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **the Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **the Municipality's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs, as Items 07-II-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider to be a material weakness.

This report is intended for the information of the audit committee, management 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.

December 7, 2007
San Juan, Puerto Rico

Nieves Velazquez & Co., P.S.C.

CPA Stamp #2238665 was affixed
to the record copy of this report.





NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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

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

Compliance

We have audited the compliance of **the Municipality of Sabana Grande of the Commonwealth of Puerto Rico (The 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 year ended June 30, 2007. **The Municipality's** major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **the Municipality'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 and 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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133
(Continuation)**

Compliance (Continuation)

In our opinion, **the Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed three instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Finding and Questioned Costs as Items 07-III-1 and 07-III-2.

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 and to test our report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect **the Municipality's** ability to administer a major federal program in accordance with the applicable requirements of laws regulations, contracts, and grants. Reportable conditions is described in the accompanying schedule of findings and questioned costs as items 07-III-1 and 07-III-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 (Continuation)**

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of **the Municipality** as of and for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007, which was unqualified at the fund financial statements level, but adverse at the government wide financial statements because we were unable to obtain competent evidential matter related to the Infrastructure Capital Assets reported in the Governmental Activities. Except as discussed in the preceding sentence, our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of **the Municipality**. 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.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

December 7, 2007
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp #2238666 was affixed
to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

<i>Federal Grantor/Pass-through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number (Note 2)</i>	<i>Pass-through Entity Identifying Number (Note 3)</i>	<i>Federal Expenditures (Notes 1 and 4)</i>
<u>U.S. Department of Housing & Urban Development (HUD)</u>			
Major Programs:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	N/A	\$695,868
Pass-through "Oficina del Comisionado de Asuntos Municipales":			
Community Development Block Grant's/ States Program	14.228	N/A	<u>884,440</u>
Total U.S. Department of Housing & Urban Development (HUD)			<u>1,580,308</u>
<u>U.S. Department of Health and Human Services (HHS)</u>			
Major Program:			
Pass-through Administration of Children and Families:			
Head Start Program	93.600	N/A	5,002,647
Pass-through "Instituto de Servicios "Community Services Block Grant			
	93.569	N/A	51,079
Non-Major Programs:			
Child Care and Development Block Grant	93.575	CC-92-502	163,154
Family Violence Prevention and Services	93.592		44,295
Social Services Block Grant	93.667		54,312
Passed-through the P.R. Governor Office:			
Special Programs for the Aging Title III-Part B	93.044	N/A	<u>68,185</u>
Total U.S. Department of Health and Human Services			<u>5,383,672</u>
<u>U.S. Department of Agriculture (USDA)</u>			
Major Program:			
Passed-through the Puerto Rico Department of Education:			
Child and Adult Care Food Program (CACFP)	10.558	N/A	<u>404,263</u>
Sub-total			<u>7,368,243</u>

Continued-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007
(Continuation)**

<i><u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u></i>	<i><u>Federal CFDA Number (Note 2)</u></i>	<i><u>Pass-through Entity Identifying Number (Note 3)</u></i>	<i><u>Federal Expenditures (Notes 1 and 4)</u></i>
Sub-total carried forward			<u>7,368,243</u>
<u>U.S. Department of Justice (DOJ)</u>			
Non-Major Program:			
Direct Program:			
Public Safety Partnership and Community Policing Grants (COPS)	16.710	N/A	<u>143,857</u>
<u>U.S. Federal Emergency Management Administration</u>			
Non-Major Program:			
Pass-through Office of the Governor Public Assistant Grant	83.544	N/A	<u>274,681</u>
Total Expenditures of Federal Awards			<u>\$7,786,781</u>

See notes to the Schedule of Federal Financial Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Sabana Grande, Puerto Rico (Municipality) and is presented on the modified accrual basis accounting. 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 general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

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 financial transactions are recorded by the Municipality in accordance with the terms 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.

3. FEDERAL CFDA NUMBER

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

4. PASS THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, 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/AV are not available.

5. MAJOR PROGRAMS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Section I. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unqualified, except for adverse for government-wide financial statements

Internal Control over financial reporting:
 Material weakness identified? Yes No
 Reportable conditions identified not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:
 Material weakness identified? Yes No
 Reportable conditions identified not considered to be material weaknesses? Yes No

Type of auditors' report issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.558

Child and Adult Care Food Program

14.228

Community Development Block Grant-State's Program

14.871

Section 8-Housing Choice Voucher Program

93.600

Head Start Programs

Dollar threshold used to distinguish between Type A and Type B Programs Auditee.

\$300,000

Qualified as low-risk auditee?

Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	07-II-1	<p>Fixed/Capital Assets</p> <p><u>Criteria</u></p> <p>Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life. Also, the pronouncement requires to retroactively apply the requirements to major general infrastructure assets not later than June 30, 2007.</p> <p><u>Condition</u></p> <p>The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Infrastructures Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.</p> <p><u>Cause</u></p> <p>Competent and sufficient evidential matter related to the infrastructure capital assets was not available to support the value, completeness and ownership of these assets at June 30, 3007.</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	07-II-1	<p>Fixed/Capital Assets (Continuation)</p> <p><u>Effect</u></p> <p>The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality to assign a task force or an outside consultant to acquire competent evidential matter to support the value, completeness and ownership of those infrastructure capital assets.</p> <p><u>Management Comments</u></p> <p>The Municipality is in the process of requesting proposals from outside consultants to know the cost of those services. Once we know the approximated cost of the services we have to identify the source of funds in the budget to pay for those services.</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section III. Federal Award Finding and Questioned Costs

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Vouchers	07-III-1	<p>Cash Management</p> <p><u>Criteria</u></p> <p>The Municipality must maintain a cash management system in order to minimize the time elapsed between the transfer of funds between the pass-through grantor and disbursements made by the grantee (24 CFR, Subpart I, Section 570.489).</p> <p><u>Condition</u></p> <p>The Municipality's elapsed time between draw down and disbursement for the year averaged eight days.</p> <p><u>Cause</u></p> <p>The Municipality did not maintain appropriate cash management procedures to minimize the elapsed time between draw downs and related disbursements.</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with 24 CFR, Subpart I, Section 570.489.</p> <p><u>Recommendation</u></p> <p>Municipal officials should implement sound internal control procedures to minimize the elapsed time between draw downs and related disbursement in order to comply with federal requirement.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Section III. Federal Award Finding and Questioned Costs

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>								
Section 8 Housing Choice Vouchers	07-III-1	<p>Cash Management (Continuation)</p> <p><u>Managements Comments</u></p> <p>The Section 8 Program has coordinated with the Finance Department Director of the Municipality a schedule of days to print the program checks to comply with the time elapsed between draw downs of fund and the disbursement.</p>									
Section 8 Housing Choice Vouchers	07-III-2	<p>Eligibility</p> <p><u>Criteria</u></p> <p>The Municipality must maintain appropriate applicant records with necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR, Sections 5.230, 5.609 and 982.516).</p> <p><u>Condition</u></p> <p>The Municipality lacks evidence to support their participant's eligibility determinations as follows:</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Documents Missing</u></th> <th style="text-align: right;"><u>Number of Participants</u></th> </tr> </thead> <tbody> <tr> <td>Income Verification Form</td> <td style="text-align: right;">3</td> </tr> <tr> <td>Citizenship Declaration</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Authorization for Release of Information</td> <td style="text-align: right;">1</td> </tr> </tbody> </table> <p><u>Cause</u></p> <p>The Municipality did not maintain appropriate document management procedures to retain evidence of their eligibility determinations.</p>	<u>Documents Missing</u>	<u>Number of Participants</u>	Income Verification Form	3	Citizenship Declaration	1	Authorization for Release of Information	1	
<u>Documents Missing</u>	<u>Number of Participants</u>										
Income Verification Form	3										
Citizenship Declaration	1										
Authorization for Release of Information	1										

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section III. Federal Award Finding and Questioned Costs

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Vouchers	07-III-2	Eligibility (Continuation) <u>Effect</u> The Municipality is not in compliance with 24 CFR, Sections 5.230, 5.606 and 982.516. <u>Recommendation</u> Municipal officials should implement sound internal control procedures to request maintain and retain their applicant's records. <u>Management Comments</u> We have implemented a checklist to correct this situation in order to avoid findings and to properly manage the files.	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2007**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
<i>June 30, 2006</i>	<i>CDBG</i>	<i>06-01</i>	<p><u>Cash Management</u></p> <p>During the fiscal year 2005-2006, the Municipality received \$684,021, from the pass-through entity ("Municipality Affairs Commissioner Office-OCAM") regarding the State Community Development Block Grant Program ("CDBG").</p> <p>In order to determine compliance with the cash management requirement, we selected for testing seven remittances of funds received from "OCAM" amounting \$370,950 (54%). In some cases, the time elapsed between the receipt and the disbursement of such funds was for more than three months.</p>	Similar finding did not occur during the fiscal year 2007 audit.
	<i>Section 8 Choice Voucher</i>	<i>06-02</i>	<p><u>Cash Management</u></p> <p>Section 8 Housing Choice Voucher Program does not have adequate controls over the timing of disbursements once the federal funds are received. During the fiscal year 2005-2006, the Municipality received \$668,078 from Section 8 Voucher grant funds. In order to determine compliance with the cash management requirements, we selected for testing three out of the twelve remittances of funds received during the fiscal year amounting \$167,080 (25%). The time elapsed between the receipt and the disbursement of such funds was for more than three weeks.</p>	Although improvements have been noticed during the current year, finding still prevails. See current year Finding 07-III-1.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2007**

**Single Audit
Report**

Program Finding No. Finding Current Status

Head Start *06-03* *Period of Availability/Liquidation of Funds*

Advanced funds in excess not returned to the pass-through entity. During the fiscal year 2005-2006, the Head Start Program received \$4,733,225, from the pass-through entity, "Administración para el Cuidado y Desarrollo Integral de la Niñez" (ACUDEN), to paid all programmatic, administrative and training costs incurred by the Program. We found that after five months of May 31, 2006, 90 days after the end of the funding and contract period, the Program maintains approximately \$12,400, of the funds requested and received from ACUDEN in excess of the total Program's expenditures and obligations for the program year.

Municipality officials determined that the correct excess was \$11,992 which was returned to the program on January 29, 2007.

June 30, 2006 *Head Start* *06-04* *Reporting*

Final financial reports were incorrect. During our reporting test, we found that the program filed a final financial status report as of May 31, 2006 that does not agree with the general ledger as follows:

Municipality officials subsequently posted such obligations in the general ledger.

Account	Program Year	Obligations Per Report	Obligations		Differences
			Per General Ledger		
PA22	3/1/05-2/28/06	\$82,893	\$0		\$82,893
PA20	3/1/05-2/28/06	1,000	\$0		1,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2007**

Single Audit Report	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
	<i>Section 8 Choice Voucher</i>	<i>06-05</i>	<i><u>Special Test</u></i> Lack of control over selections from the waiting list. Applications received by Section 8 Housing Choice Voucher Program were not selected from the waiting list in accordance with Municipality's ("PHA") administrative plan. The Municipality has agreed to give preference for selection of families on the waiting list based on local preferences. After reviewing the waiting list, we noted that the applications were not being attended according to the local preferences established in the administrative plan. Some applications with a lower preference were attended before those with a higher one. Also, vouchers were first granted to families who submitted an application with a lower preference.	Municipality officials indicated that the Administrative Plan was updated to reflect the Correct Applicant Selection Method. Similar finding did not occur during the fiscal year 2007 audit.



Estado Libre Asociado de Puerto Rico GOBIERNO MUNICIPAL DE SABANA GRANDE

Oficina del Alcalde
P.O. Box 356
Sabana Grande, Puerto Rico 00637
Tel. 787-873-2060 Tel. Fax 787-873-2590

HON. MIGUEL G. ORTIZ VÉLEZ
ALCALDE

4 de marzo de 2009

Sr. Omar Negrón Judice
Comisionado
Oficina del Comisionado de Asuntos Municipales
Ave. Ponce de León #255
Edif. MCS Plaza
Piso 5 Suite 500 y Piso 6
San Juan, Puerto Rico 00918

Estimado señor Negrón:

Incluyo una copia de los Estados Financieros Auditados del Municipio de Sabana Grande al 30 de junio de 2008 y su correspondiente Plan de Acción Correctiva para su evaluación. Se incluye además, el Informe Especial sobre el Cumplimiento con las Recomendaciones del Contralor de Puerto Rico respecto a los Hallazgos incluidos en el informe de Auditoría M-06-41 del 3 de abril de 2006 para su evaluación.

De necesitar información adicional favor de comunicarse con el Sr. Nelson Ortiz Figueroa, Director de Finanzas al (787) 804-2001 o con la Sra. Norma H. Orsini Rivera, Auditora Interna al (787) 804-2002.

Cordialmente,

MIGUEL G. ORTIZ VÉLEZ
Alcalde

Anejos

09 MAR 13 AM 11:55
UNIDAD DE CORREO
Café 9.8.13

09 MAR 13 PM 3:59
DIVISION RECLAMACIONES
E INTERVENCION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

09 MAR 13 AM 11:55
RECIBIDO
UNIDAD DE CORREO

Cuffey 8/13

DMH
DIVISION REGULATORIA
E INTERVENCION

09 MAR 13 PM 3:59

CORRECTIVE ACTION PLAN FISCAL YEAR 2008

MIGUEL G. ORTIZ VÉLEZ
MAYOR

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

CORRECTIVE ACTION PLAN FISCAL YEAR 2008

AUDIT REPORT: SINGLE AUDIT JUNE 30, 2008

AUDIT PERIOD: JULY 1, 2007 TO JUNE 30, 2008

MAYOR: HON. MIGUEL G. ORTIZ VELEZ

CONTACT PERSON RESPONSIBLE
FOR CORRECTIVE ACTION:

NAME: NELSON ORTIZ FIGUEROA

TITLE: FINANCE DIRECTOR

TELEPHONE: 787-873-2060

FINDING NUMBER	FISCAL YEAR	FINDING	AUDITOR RECOMENDATION	CORRECTIVE ACTION PLANNED	ANTICIPATED COMPLETION DATE	RESULT
08-II-1	June 30, 2008	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.	We recommend the Municipality to assign a task for or an outside consultant to acquire competent evidential matter to support the value, completeness and ownership of those infrastructure capital assets.	The Municipality has estimated approximately \$50,000 the cost of those services. We are in the process of identifying the source of funds in the budget to pay for those services.	June 30, 2010	Pending corrective action plan.