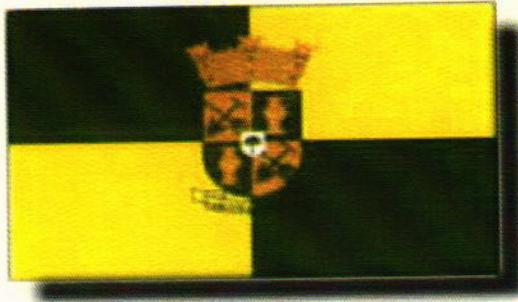


**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SABANA GRANDE  
AUDITORÍA 2010-2011  
30 DE JUNIO DE 2011**



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2011



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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2011

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of 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 **Municipality of Sabana Grande, Puerto Rico**, as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Sabana Grande's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Sabana Grande, Puerto Rico's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 4 to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. 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 preceding 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, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund, and the aggregate remaining fund information of the Municipality of Sabana Grande, Puerto Rico, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

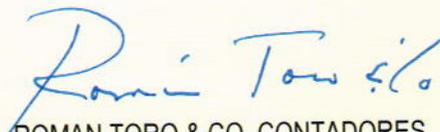
## INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

In accordance with Government Auditing Standards, we also issued our report dated March 16, 2012, on our consideration of the Municipality of Sabana Grande, Puerto Rico's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 46 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Sabana Grande, Puerto Rico's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
ROMAN TORO & CO., CONTADORES  
PUBLICOS AUTORIZADOS, CSP  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 16, 2012

Stamp #E18582 was affixed to  
the original of this report



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011. 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. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

- ❖ a broader basis in focusing important issues;
- ❖ acknowledgement of an overview of the Municipality's financial activities;
- ❖ provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- ❖ identification of uses of funds in the financing of the Municipality's variety of activities and;
- ❖ assess management's ability to handle budgetary functions.

#### FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The assets of the Municipality exceeded its liabilities at June 30, 2011 by \$19,960,688, and at June 30, 2010 by \$18,036,051, as restated;
- ❖ The Municipality's total net assets increase by \$1,924,637 during fiscal year 2010-2011;
- ❖ As of June 30, 2011, the Municipality's governmental funds reported combined ending fund balances of \$5,741,079, a decrease of \$614,130 from the prior year;
- ❖ At June 30, 2011, the unrestricted deficit was \$7,749,051;
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets net of depreciation as of June 30, 2011 was \$23,664,461;
- ❖ The investment in capital assets for this year was \$5,050,667;
- ❖ Loans principal payments were \$428,000 and \$376,000 in 2011 and 2010, 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

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.

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, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. 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 an accounting method called modified accrual 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 budget.

**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.

**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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, net assets exceeded liabilities by \$19,960,688 as of June 30, 2011 versus \$18,036,051 as of June 30, 2010. Our analysis below focuses on the net assets (**Table 1**) and changes in net assets of the Municipality's governmental activities.

<b>Table 1</b>		
<b>Statement of Net Assets</b>	<b>2011</b>	<b>2010</b>
Current and non-current assets	\$ 8,780,872	\$ 10,217,458
Capital assets	<u>23,664,461</u>	<u>21,638,839</u>
<b>Total Assets</b>	<b><u>32,445,333</u></b>	<b><u>31,856,297</u></b>
Current liabilities	2,897,614	4,163,425
Long-term liabilities	<u>9,587,031</u>	<u>9,656,821</u>
<b>Total Liabilities</b>	<b><u>12,484,645</u></b>	<b><u>13,820,246</u></b>
Net assets:		
Investment in capital assets, net of related debt	19,150,461	17,045,839
Restricted	8,559,278	8,938,412
Deficit	<u>(7,749,051)</u>	<u>(7,948,200)</u>
<b>Total Net Assets</b>	<b><u>\$ 19,960,688</u></b>	<b><u>\$ 18,036,051</u></b>

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.

Total Net Assets of the Municipality's governmental activities were \$19,960,688. The unrestricted deficit was \$7,749,051 at June 30, 2011, an increase of \$1,924,637 from prior year.

**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 \$8,869,581. 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 \$1,924,637.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES (CONTINUED)**

The Municipality experienced a substantial increase in property taxes due to growth in new constructions and the assessed valuation of property within the Municipality. Also, a 1.5% sales tax was imposed by the Municipality, commencing on November 15, 2006. The cost of all governmental activities this year was \$21,669,827. **Table 2** presents the cost of each of the Municipality's largest programs.

**Table 2**

**Statement of Activities**

	<u>2011</u>	<u>2010</u>
Revenues		
Charges for services	\$ 1,965,240	\$ 2,379,569
Grants and contributions	10,835,006	11,752,787
General revenues:		
Property taxes	2,820,809	2,361,170
Volume of business taxes	989,844	962,116
Sales taxes	641,500	529,505
Intergovernmental	5,304,623	5,068,340
Rent	101,563	278,454
Licenses and permits	687,813	444,534
Miscellaneous	248,066	196,507
Total revenues	<u>23,594,464</u>	<u>23,972,982</u>
Expenses		
Mayor and municipal legislature	2,269,553	2,479,962
General government	2,983,486	3,420,540
Public safety	586,738	628,986
Public works	2,770,079	2,563,291
Culture and recreation	427,554	433,010
Health and sanitation	2,595,571	2,730,403
Solid waste disposal	-	177,366
Human services and welfare	2,967,540	2,768,046
Urban development	587,272	869,591
Education	6,182,685	5,947,441
Interest on long-term debts	299,349	313,632
Total expenses	<u>21,669,827</u>	<u>22,332,268</u>
Changes in net assets	1,924,637	1,640,714
Net assets – beginning, as restated	<u>18,036,051</u>	<u>16,395,337</u>
<b>Net assets – ending</b>	<b><u>\$ 19,960,688</u></b>	<b><u>\$ 18,036,051</u></b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**GOVERNMENT FUND FINANCIAL ANALYSIS**

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

<b>Table 3</b>		<u>2011</u>	<u>2010</u>
<b>Balance Sheet</b>			
<b>Assets:</b>			
Total assets – Major Funds	\$	7,850,083	\$ 9,734,647
Total assets – Other Funds		<u>3,060,049</u>	<u>2,218,502</u>
Combined total assets		<u>10,910,132</u>	<u>11,953,149</u>
<b>Liabilities:</b>			
Total liabilities – Major Funds		4,080,942	4,537,585
Total liabilities – Other Funds		<u>1,088,111</u>	<u>1,060,355</u>
Combined total liabilities		<u>5,169,053</u>	<u>5,597,940</u>
<b>Fund Balances:</b>			
Reserved – Major Funds		8,559,278	8,950,476
Unreserved – Major Funds		<u>(2,818,199)</u>	<u>(2,595,267)</u>
Combined total fund balances		<u>5,741,079</u>	<u>6,355,209</u>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b><u>10,910,132</u></b>	<b>\$ <u>11,953,149</u></b>

<b>Table 4</b>		<u>2011</u>	<u>2010</u>
<b>Changes in Fund Balances</b>			
<b>Revenues:</b>			
Total revenues – Major Funds	\$	14,931,465	\$ 18,028,658
Total revenues – Other Funds		<u>8,598,867</u>	<u>5,930,451</u>
Combined total revenues		<u>23,530,332</u>	<u>23,959,109</u>
<b>Expenditures:</b>			
Total expenditures – Major Funds		16,248,080	18,719,889
Total expenditures – Other Funds		<u>8,101,382</u>	<u>6,638,458</u>
Combined total expenditures		<u>24,349,462</u>	<u>25,358,347</u>
Excess of expenditures over revenues		<u>(819,130)</u>	<u>(1,399,238)</u>
<b>Other financing sources (uses):</b>			
Proceed from issuance of bonds		205,000	-
Transfer – In		334,815	296,041
Transfer – Out		<u>(334,815)</u>	<u>(296,041)</u>
Combined other financing sources (uses), net		<u>205,000</u>	<u>-</u>
Net changes in fund balance		<u>(614,130)</u>	<u>(1,399,238)</u>
Fund Balance – beginning, as restated		<u>6,355,209</u>	<u>7,754,447</u>
<b>Fund Balance – ending</b>	<b>\$</b>	<b><u>5,741,079</u></b>	<b>\$ <u>6,355,209</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**GOVERNMENTAL FUNDS**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, 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, 2011, the Municipality's governmental funds reported combined ending fund balances of \$5,741,079, a decrease of \$614,130 from the prior year.

The Municipality has an unassigned fund deficit of \$2,818,199 in its General Fund. The remainder of the balance is restricted to indicate that it is not available for new spending because it has already been committed; (a) to pay debt service (\$824,697) and (b) for other restricted purposes (\$7,734,581).

**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 2011 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2011 amounted to \$23,664,461 (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 \$2,784,150. Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. **Table 5** present the major classes of capital assets.

<b>Table 5</b>	
<b>Capital Assets</b>	<b>Amount</b>
Land	\$ 2,098,028
Construction in progress	5,112,301
Buildings	11,757,389
Infrastructure	3,884,397
Machinery and equipment	433,604
Motor vehicles	378,742
<b>Total Assets</b>	<b>\$ 23,664,461</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**LONG-TERM DEBT**

At June 30, 2011 the Municipality had total of \$9,587,031 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$6,640,000 comprises debt backed by the full faith and credit of the government and \$2,947,031 is other obligations.

<b>Table 6</b>	
<b>Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 6,000,000
Special notes	640,000
Others	<u>2,947,031</u>
<b>Total Long Term Debts</b>	<b><u>\$ 9,587,031</u></b>

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 2011 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.

# **BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET ASSETS  
June 30, 2011**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash and Investments	\$ 5,450,450
Cash with Fiscal Agent	2,622,459
Receivables (net):	
Property Taxes	151,714
Sales Taxes	43,295
Intergovernmental	448,593
Federal Grants	51,012
Others	13,349
	8,780,872
Capital Assets:	
Property, Plant and Equipment	32,505,993
Accumulated Depreciation	(8,841,532)
Total Capital Assets	23,664,461
<b>TOTAL ASSETS</b>	<b>32,445,333</b>
 <b>LIABILITIES:</b>	
Bank Overdraft	110,519
Accounts Payable and Accrued Expense	919,456
Accrued Interest	62,549
Due to Governmental Units	550,107
Deferred Revenue:	
Volume of Business Tax	880,194
Federal Grants	374,789
Long-Term Liabilities:	
Due within One Year	709,994
Due in More than One Year	8,877,037
<b>Total Liabilities</b>	<b>12,484,645</b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	19,150,461
Restricted for:	
Debt Service	824,697
Others Purposes	7,734,581
Unrestricted (Deficit)	(7,749,051)
<b>TOTAL NET ASSETS</b>	<b>\$ 19,960,688</b>

See accompanying Notes to Basic Financial Statements

*ROMAN TORO & CO., CSP Certified Public Accountants and Business Consultants*  
PO BOX 3043 YAUCO PR 00698-3043 · TEL. (787) 856-6220 · FAX: (787) 856-6233

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

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 2,269,553	-	-	-	(2,269,553)
General Government	2,983,486	-	96,110	-	(2,887,376)
Public Safety	586,738	-	118,693	-	(468,045)
Public Works	2,770,079	-	-	-	(2,770,079)
Culture and Recreation	427,554	-	34,627	-	(392,927)
Health and Sanitation	2,595,571	1,965,240	478,294	-	(152,037)
Human Services and Welfare	2,967,540	-	1,872,561	-	(1,094,979)
Urban Development	587,272	-	-	2,050,574	1,463,302
Education	6,182,685	-	6,184,147	-	1,462
Interest on Long-Term Debt	299,349	-	-	-	(299,349)
<b>Total Governmental Activities</b>	<b>\$ 21,669,827</b>	<b>1,965,240</b>	<b>8,784,432</b>	<b>2,050,574</b>	<b>(8,869,581)</b>

General Revenues:

Taxes:

Property, levied for General Purposes	1,984,620
Property, levied for Debt Services	836,189
Volume of Business	989,844
Sales, levied for General Purposes	564,129
Sales, levied for Debt Services	77,371
Intergovernmental	5,304,623
Rent	101,563
Licences and Permits	687,813
Miscellaneous	248,066
Total General Revenues	<u>10,794,218</u>

**CHANGE IN NET ASSETS**

Net Assets - Beginning of Year - Restated	18,036,051
<b>NET ASSETS - END OF YEAR</b>	<b><u>\$ 19,960,688</u></b>

See accompanying Notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
Cash and Investments, including cash equivalents	\$ -	\$ 48,396	\$ 3,375,714	\$ -	\$ 922,788	\$ 1,103,552	\$ 5,450,450
Cash with Fiscal Agent	16,967	-	-	1,525,842	9,388	1,070,262	2,622,459
Receivables:							
Property Taxes	142,179	-	-	-	-	9,535	151,714
Sales Tax	37,075	-	-	-	-	6,220	43,295
Intergovernmental	389,581	-	-	-	-	59,012	448,593
Federal Grants	-	-	-	-	-	51,012	51,012
Due from Other Funds	307,504	-	435,109	-	639,540	747,107	2,129,260
Others	-	-	-	-	-	13,349	13,349
<b>Total Assets</b>	<b>\$ 893,306</b>	<b>\$ 48,396</b>	<b>\$ 3,810,823</b>	<b>\$ 1,525,842</b>	<b>\$ 1,571,716</b>	<b>\$ 3,060,049</b>	<b>\$ 10,910,132</b>

**LIABILITIES AND FUND BALANCES:**

<b>Liabilities:</b>							
Bank Overdraft	\$ 110,519	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,519
Accounts Payable and Accrued Expenses	189,783	23,561	210,349	-	127,659	181,104	732,456
Bonds and Notes Payable	-	-	-	-	-	187,000	187,000
Accrued Interest	-	-	-	-	-	62,549	62,549
Due to Governmental Units	550,107	-	-	-	-	-	550,107
Due to Other Funds	1,821,756	-	-	-	-	307,504	2,129,260
Deferred Revenue:							
Volume of Business Tax	880,194	-	-	-	-	-	880,194
Property Taxes	142,179	-	-	-	-	-	142,179
Federal Grants	-	24,835	-	-	-	349,954	374,789
<b>Total Liabilities</b>	<b>3,694,538</b>	<b>48,396</b>	<b>210,349</b>	<b>-</b>	<b>127,659</b>	<b>1,088,111</b>	<b>5,169,053</b>
<b>Fund Balances:</b>							
Restricted	16,967	-	3,600,474	1,525,842	1,444,057	1,971,938	8,559,278
Unassigned	(2,818,199)	-	-	-	-	-	(2,818,199)
<b>Total Fund Balances</b>	<b>(2,801,232)</b>	<b>-</b>	<b>3,600,474</b>	<b>1,525,842</b>	<b>1,444,057</b>	<b>1,971,938</b>	<b>5,741,079</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 893,306</b>	<b>\$ 48,396</b>	<b>\$ 3,810,823</b>	<b>\$ 1,525,842</b>	<b>\$ 1,571,716</b>	<b>\$ 3,060,049</b>	<b>\$ 10,910,132</b>

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, 2011

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property Taxes	\$ 1,842,441	-	\$ -	-	-	\$ 836,189	\$ 2,678,630
Sales Tax	564,129	-	-	-	-	77,371	641,500
Volume of Business Taxes	989,844	-	-	-	-	-	989,844
Federal Assistsances	-	4,773,852	-	-	-	4,008,124	8,781,976
Intergovernmental	5,304,623	-	228,015	-	113,072	3,620,724	9,266,434
Licenses and Permits	687,813	-	-	-	-	-	687,813
Rent	101,563	-	-	-	-	-	101,563
Miscellaneous	326,113	-	-	-	-	56,459	382,572
<b>Total Revenues</b>	<b>9,816,526</b>	<b>4,773,852</b>	<b>228,015</b>	<b>-</b>	<b>113,072</b>	<b>8,598,867</b>	<b>23,530,332</b>

<b>EXPENDITURES</b>							
Current							
Mayor and Municipal Legislature	2,253,034	-	-	-	-	-	2,253,034
General Government	2,729,091	-	-	-	-	52,569	2,781,660
Public Safety	479,871	-	-	-	-	65,698	545,569
Public Works	2,650,230	-	-	-	-	-	2,650,230
Culture and Recreation	391,855	-	-	-	-	18,288	410,143
Health and Sanitation	215,466	-	-	-	-	2,377,024	2,592,490
Human Services and Welfare	991,098	-	9,950	-	-	1,895,951	2,896,999
Urban Development	-	-	439,420	160,724	358,499	1,540,196	2,498,839
Education	-	4,773,852	-	-	-	1,408,833	6,182,685
Capital Outlay	-	-	743,037	-	51,953	15,474	810,464
Debt Service:							
Principal	-	-	-	-	-	428,000	428,000
Interest and Other Charges	-	-	-	-	-	299,349	299,349
<b>Total Expenditures</b>	<b>9,710,645</b>	<b>4,773,852</b>	<b>1,192,407</b>	<b>160,724</b>	<b>410,452</b>	<b>8,101,382</b>	<b>24,349,462</b>

Excess (deficiency) of revenues over (under) expenditures 105,881 (964,392) (160,724) 497,485 (819,130)

<b>OTHER FINANCING SOURCES (USES)</b>							
Proceed of Bond	-	-	-	205,000	-	-	205,000
Transfers - In	-	-	13,564	-	-	321,251	334,815
Transfers - Out	(311,846)	-	(18,024)	-	-	(4,945)	(334,815)
<b>Total Other Financing Sources and Uses</b>	<b>(311,846)</b>	<b>-</b>	<b>(4,460)</b>	<b>205,000</b>	<b>-</b>	<b>316,306</b>	<b>205,000</b>
<b>Net Change in Fund Balances</b>	<b>(205,965)</b>	<b>-</b>	<b>(968,852)</b>	<b>44,276</b>	<b>(297,380)</b>	<b>813,791</b>	<b>(614,130)</b>
<b>Fund Balance - Beginning as Restated (Note 19)</b>	<b>(2,595,267)</b>	<b>-</b>	<b>4,569,326</b>	<b>1,481,566</b>	<b>1,741,437</b>	<b>1,158,147</b>	<b>6,355,209</b>
<b>Fund Balances - Ending</b>	<b>(2,801,232)</b>	<b>-</b>	<b>3,600,474</b>	<b>1,525,842</b>	<b>1,444,057</b>	<b>1,971,938</b>	<b>5,741,079</b>

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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**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Total Fund Balances – Governmental Funds (Page 12) \$ 5,741,079**

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:

Capital Assets.....	\$ 32,505,993	
Accumulated Depreciation.....	<u>(8,841,532)</u>	
 Total Capital Assets.....		 23,664,461

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:

Municipal Revenue Collection Center.....		142,179
--	--	---------

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 .....	(6,640,000)	
Compensated Absences.....	(2,115,488)	
Property Tax Debt – Law 42.....	(357,021)	
Property Tax Debt – Law 146.....	(30,497)	
LIMS Repayment Plan.....	(16,814)	
State Department of Labor- Unemployment.....	(47,988)	
State Health Insurance Administration .....	<u>(379,223)</u>	
 Total Long-Term Liabilities .....		 <u>(9,587,031)</u>

**Total Net Assets of Governmental Activities (Page 10)..... \$ 19,960,688**

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**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Net Change in Fund Balances – Total Governmental Funds (Page 13)..... \$ (614,130)**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

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

Urban Development and Capital Outlay .....	\$ 2,784,150	
Depreciation Expense .....	<u>(755,418)</u>	
Excess of Capital Outlay over Depreciation Expense .....		2,028,732

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Statement of Net Assets, resulting in a loss and gain on disposal of machinery and equipment and land on the Statement of Activities..... (3,110)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds..... 142,179

Revenues in the governmental funds that correspond to prior year resources are not recorded as revenue in the Statement of Activities..... (78,047)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets. In the current period, these amounts are:  
     Bonds and Notes Payable..... (205,000)

Repayment of debt proceeds principal is 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. .... 428,000

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 .....	86,322	
Decrease in Property tax Debt – Law 42.....	8,132	
Decrease in Property tax Debt – Law 146.....	1,452	
Decrease in LIMS Repayment Plan.....	32,184	
Decrease in Property Tax Advances.....	70,322	
Decrease in State Department of Labor- Unemployment .....	<u>27,601</u>	
Total Additional Expenditures .....		<u>226,013</u>

**Change in Net Assets of Governmental Activities (Page 11)..... \$ 1,924,637**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NOTE 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 fourteen 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 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.

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, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2011, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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, 2011, 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Measurement Focus and Basis of Accounting (Continued)**

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.

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

There are essentially two types of revenue. For some grants, funds 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, 2011, 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.

**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 expendable resources) with capital assets and long-term obligations.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Assets** – These consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities 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 and the Statement of Revenues, Expenditures, and Changes in Fund Balances) 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 a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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 of 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 assignment is the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

**Loans Fund** – This is the fund used to account for all financial resources and transactions related to the loans for operational purposes, construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

**Capital Projects Fund** – This is the fund used to account for all grants and other restricted revenue sources related to construction projects. The uses and limitations of each capital projects fund are specified by Municipality ordinances or federal and state statutes.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the Government-Wide Statement of Net Assets.

D. Financial Reporting Presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation (Continued)

**Special Revenue Fund – Local and State Grants** – This is the fund used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

**Special Revenue Fund – Section 8 Voucher Program** – This is the fund used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Head Start** – This is the fund used to account for revenues derived from head start program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Fund** – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**Capital Projects Fund – State and Local Grants** – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

**Capital Projects Fund – Federal Grants** – This is the fund used to account for revenues derived from federal grants related to capital projects. The uses and limitations of each capital projects fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Federal Grants** - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

E. Fund Balances

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The fund balances are reported in five categories: 1) Nonspendable, 2) Restricted, 3) Committed, 4) Assigned and 5) Unassigned.

- ❖ **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances (continued)

These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.

- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

When both restricted and unrestricted fund resources are available for use, it is the Municipality's policy to use externally restricted resources first, then unrestricted resources (committed, assigned and unassigned) in order and as needed.

At June 30, 2011, the accompanying fund financial statements reported fund balances as restricted and unassigned.

F. Budgetary Data

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

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. 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 of 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 establishes by the Law;

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data (Continued)

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 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.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
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 Finance 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 THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**G. 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.

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

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

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. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

**H. Receivables**

Receivable are stated nets of estimated allowances for uncollectible 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.

**I. Inventories**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**J. 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>Capital Assets</u>	<u>Years</u>
Buildings	50
Improvement Other Than Buildings	50
Equipment and Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

**K. Long-Term Obligations**

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**L. Compensated Absences**

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Compensated Absences (Continued)**

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and 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, 2011.

<u>BALANCE</u> <u>JULY 1, 2010</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2011</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$2,201,810	\$ -	\$86,322	\$2,115,488	\$199,977	\$1,915,511

**M. 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.

**N. 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:

- ❖ **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 THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Claims and Judgments**

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

**P. 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.

**Q. Accounting for Pension Costs**

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

**R. Risk Financing**

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2011 amounted to \$170,519. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$388,915 for workers compensation insurance covering all municipal employees.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Future Adoption of Accounting Pronouncements

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

- ❖ GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement is effective for periods beginning after June 30, 2012;
- ❖ GASB Statement No. 59, *Financial Instruments Omnibus*. This statement is effective for periods beginning after June 30, 2011;
- ❖ GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 30, 2013;
- ❖ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*. This statement is effective for periods beginning after June 30, 2013;

The Authority's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the Authority's basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

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

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2011.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2011, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2011.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

**NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)**

The Municipality's bank balances in commercial banks of \$48,396 in the Head Start Fund, \$3,375,714 in the State Assignment Fund and \$922,788 in the Capital Project Fund, were fully collateralized at June 30, 2011. In the Other Governmental Funds there were deposits with commercial banks of \$1,103,552 that were fully collateralized.

The deposits at GDB of \$16,967 in the General Fund, the \$1,525,842 in the Loans Fund, the \$9,388 in the Capital Projects Fund, and the \$1,070,262 in Other Governmental Funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**NOTE 3 – RECEIVABLES**

**A. Property Taxes Receivables**

Property taxes receivable in General Fund represents contributions from the Traditional and Electronic Lottery of the fiscal year 2010-2011, not collected by the Municipality at June 30, 2011. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 142,179
<b>Total</b>	<b>\$ 142,179</b>

In the governmental funds, this receivable was classified as deferred revenue, because was not available to pay liabilities of the current period.

Property taxes receivable in the Other Governmental Funds represents advances for the Debt Service Fund from fiscal year 2010-2011, not collected by the Municipality at June 30, 2011. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 9,535
<b>Total</b>	<b>\$ 9,535</b>

**B. Sales Tax Receivables**

As described below in Note 12, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 10<sup>th</sup> day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$37,075 in the General Fund and \$6,220 in the Other Governmental Funds represents the amount due by the taxpayers at June 30, 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**C. Intergovernmental Receivables**

State government receivable of \$389,581 in the General Fund, represents the amount paid in excess during fiscal year 2010-2011 and prior years for the purchase of gasoline to the General Service Administration. This amount will be reimbursed to the Municipality by a credit in future purchases or in a cash reimbursement. State government receivables in Other Governmental Funds represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor and Human Resources – Law 52	<u>\$ 59,012</u>

**D. Federal Grants Receivables**

Following is a detail of the intergovernmental receivable in the Other Governmental Funds for expenditures incurred not yet reimbursed by the federal agencies:

<u>Description</u>	<u>Amount</u>
Early Head Start Program	\$ 3,531
Child Care Development Block Grant	45,404
Public and Indian Housing	330
Homeland Security Grant	<u>1,747</u>
<b>Total</b>	<b><u>\$ 51,012</u></b>

**E. Due From Other Funds**

Interfund receivables and payables at June 30, 2011 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	\$ 307,504
State Assignment Fund	General Fund	Reimbursable expenditures	435,109
Capital Project Fund	General Fund	Cash pool in same bank account	639,540
Other Governmental Funds	General Fund	Cash pool in same bank account	<u>747,107</u>
<b>Total</b>			<b><u>\$ 2,129,260</u></b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**F. Other receivables**

Other receivables in other governmental funds, for the amount of \$13,349, represent Section 8 Housing Choice Vouchers receivables at June 30, 2011, resulting from fraud recoveries.

**NOTE 4 – CAPITAL ASSETS**

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2010	Additions	Retirements / Reclassifications	Balance June 30, 2011
Capital asset, not being depreciated:				
Land	\$ 1,395,791	\$ 705,000	\$ (2,763)	\$ 2,098,028
Construction in progress	4,573,595	1,561,517	(1,022,811)	5,112,301
<b>Total capital assets not being depreciated</b>	<u>5,969,386</u>	<u>2,266,517</u>	<u>(1,025,574)</u>	<u>7,210,329</u>
Capital assets, being depreciated:				
Buildings	13,657,468	178,497	595,299	14,431,264
Infrastructure	3,829,568	236,896	427,512	4,493,976
Machinery and equipment	2,346,741	102,240	(48,506)	2,400,475
Motor vehicles	4,009,084	-	(39,135)	3,969,949
<b>Total capital assets being depreciated</b>	<u>23,842,861</u>	<u>517,633</u>	<u>935,170</u>	<u>25,295,664</u>
<b>Total cost basis of capital assets</b>	<u>29,812,247</u>	<u>2,784,150</u>	<u>(90,404)</u>	<u>32,505,993</u>
Less accumulated depreciation for:				
Buildings	(2,422,782)	(251,093)	-	(2,673,875)
Infrastructure	(448,435)	(161,144)	-	(609,579)
Machinery and equipment	(1,879,268)	(135,762)	48,159	(1,966,871)
Motor vehicles	(3,422,923)	(207,419)	39,135	(3,591,207)
<b>Total accumulated depreciation</b>	<u>(8,173,408)</u>	<u>(755,418)</u>	<u>87,294</u>	<u>(8,841,532)</u>
<b>Total capital assets being depreciated, net</b>	<u>15,669,453</u>	<u>(237,785)</u>	<u>1,022,464</u>	<u>16,454,132</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 21,638,839</u>	<u>\$ 2,028,732</u>	<u>\$ (3,110)</u>	<u>\$ 23,664,461</u>

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

Governmental activities	Amount
General government	\$ 264,005
Urban development	226,067
Mayor and municipal	16,519
Public Safety	41,169
Public Works	119,849
Culture and Recreation	17,411
Sanitation	3,081
Human services and welfare	67,317
<b>Total depreciation expenses</b>	<u>\$ 755,418</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

GASB Statement No. 34 requires to retroactively applying 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.

**NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES**

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2010-2011, and not paid by the Municipality at June 30, 2011. Following is a detail of these accounts payable and accrued liabilities:

<b>Major Governmental Funds</b>	<b>Accounts Payable</b>	<b>Accrued Liabilities</b>	<b>Total</b>
General Fund	\$ 116,081	\$ 73,702	\$ 189,783
Head Start Fund	23,561	-	23,561
State Assignment Fund	210,349	-	210,349
Capital Project Fund	127,659	-	127,659
Other Governmental Funds	<u>181,104</u>	<u>-</u>	<u>181,104</u>
<b>Total</b>	<b><u>\$ 658,754</u></b>	<b><u>\$ 73,702</u></b>	<b><u>\$ 732,456</u></b>

**NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2011, balance due to other governmental units consists of the following:

<b>Governmental Agency</b>	<b>Amount</b>
Puerto Rico Aqueduct and Sewer Authority	\$ 50,880
General Service Administration	460,179
State Department of Treasury	<u>39,048</u>
<b>Total</b>	<b><u>\$ 550,107</u></b>

**NOTE 7 – DEFERRED REVENUES**

- A. **Volume of business tax** – The deferred revenues of \$880,194 in the General Fund relates to volume of business tax collected in fiscal year 2010-2011 that will be earned in fiscal year 2011-2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 7 – DEFERRED REVENUES (CONTINUED)**

**B. Property Taxes**

As described in Note 3, during fiscal year 2010-2011 the Municipality received \$142,179 from the CRIM, related to contributions from the Traditional and Electronic Lottery of the fiscal year 2010-2011, not collected by the Municipality at June 30, 2011. In the governmental funds, this receivable was classified as deferred revenue, because was not available to pay liabilities of the current period.

**C. Federal Grants** – The deferred revenues presented in the Head Start Fund in the amount of \$24,835 and in Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 2,644
Child and Adult Care Food Program	231,749
Title III	33,489
Homeland Security Grant	48,226
Homelessness Prevention and Rapid Re-housing Program	19,689
Others	14,157
<b>Total</b>	<b><u>\$ 349,954</u></b>

**NOTE 8 – GENERAL LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2011, was as follows:

<u>Description</u>	<u>Beginning Balance, as restated</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 6,168,000	\$ 205,000	\$ (373,000)	\$ 6,000,000	\$ 398,000
Notes Payable	695,000	-	(55,000)	640,000	55,000
Compensated absences	2,201,810	-	(86,322)	2,115,488	199,977
Property Tax Debt – Law 42	365,153	-	(8,132)	357,021	8,643
Property Tax Debt – Law 146	31,949	-	(1,452)	30,497	1,452
LIMS Repayment Plan	48,998	-	(32,184)	16,814	16,814
Property Tax Advances	70,322	-	(70,322)	-	-
State Health Insurance Administration	379,223	-	-	379,223	-
State Department of Labor - Unemployment	75,589	-	(27,601)	47,988	30,108
<b>Total</b>	<b><u>\$10,036,044</u></b>	<b><u>\$ 205,000</u></b>	<b><u>\$ (654,013)</u></b>	<b><u>\$ 9,587,031</u></b>	<b><u>\$ 709,994</u></b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**A. General obligations bonds**

The Municipality issues general and special obligation bonds, principally, to provide funds for the acquisition and construction of major capital facilities. General obligations bonds and notes as of June 30, 2011, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$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.	\$1,050,000
\$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.	470,000
\$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.	1,355,000
\$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.	585,000
\$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.	43,000
\$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).	346,000
\$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.	75,000
\$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.	155,000
\$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.	78,000
\$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.	200,000
\$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.	132,000

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**A. General Obligations Bonds (continued)**

DESCRIPTION	AMOUNT
\$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	133,000
\$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)	113,000
\$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.	345,000
\$330,000, Series 2009, for purchase of equipment, payable in annual installments ranging from \$45,000 to \$65,000 excluding interest from 3.93% to 7.50%, through July 1, 2014.	180,000
\$590,000, Series 2009, for purchase of equipment, payable in annual installments ranging from \$10,000 to \$50,000 excluding interest from 2.43% to 7.25%, through July 1, 2033.	560,000
\$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.	640,000
\$305,000, Series 2011, for purchase of equipment, payable in annual installments ranging from \$25,000 to \$35,000 excluding interest from 6.00% to 7.50%, through July 1, 2017.	<u>180,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$ 6,640,000</u></b>

These bonds and notes are payable with the following Municipality's resources:

- ❖ Operational resources and the CRIM retain the payment from the property tax advances of the Municipality;
- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes and;
- ❖ Municipal sales taxes resources restricted for debt service.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**B. Bonds and Notes Amortization**

The annual requirements to amortize the general obligations outstanding as of June 30, 2011 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2012	\$ 453,000	\$ 347,032	\$ 800,032
2013	481,000	396,442	877,442
2014	528,000	367,633	895,633
2015	477,000	331,245	808,245
2016	489,000	348,133	837,133
2017-2021	2,273,000	1,069,563	3,342,563
2022-2026	1,535,000	418,029	1,953,029
2027-2031	309,000	81,723	390,723
2032-2036	95,000	10,512	105,512
<b>Total</b>	<b><u>\$ 6,640,000</u></b>	<b><u>\$ 3,370,312</u></b>	<b><u>\$ 10,010,312</u></b>

**C. Compensated Absences**

The government-wide statement of net assets includes \$1,120,576 of accrued sick leave benefits, and \$994,912 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**D. Property Tax Debt – Law 42**

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2011 amounted to \$357,021.

**E. Property Tax Debt – Law 146**

On September 24, 2002, the CRIM, 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 CRIM at June 30, 2011 amounted to \$30,497.

**F. Lims Repayment Plan**

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM 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 CRIM at June 30, 2011 amounted to \$16,814.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**G. State Insurance Health Administration**

Liabilities of \$379,223 reported in the statement of net assets represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2011.

**H. State Department of Labor Debt Agreement**

The Municipality entered into a financing agreement with the State Department of Labor, for the payment of the Municipality's debt for unemployment benefits. The balance at June 30, 2011 of this agreement was \$47,988.

**NOTE 9 – DEBT RETIREMENT**

Revenues of the debt service fund consist 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.

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

**NOTE 10 – PROPERTY TAXES**

The 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 9). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 10 – PROPERTY TAXES (CONTINUED)**

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 exceed \$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.

**NOTE 11 – VOLUME OF BUSINESS TAXES**

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, 2011, 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 \$3 million or more must include audited financial statements with their tax return filings.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 11 – VOLUME OF BUSINESS TAXES (CONTINUED)**

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 7).

**NOTE 12 – 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 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 assessment 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 amendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant amendments 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 Redemption Fund and Municipal Improvements Fund; secondly the establishment 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 2010-2011 the Municipality earned the amount of \$1,119,794 related to this citizenship contribution program.

**NOTE 13 – INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 13 – INTERGOVERNMENTAL REVENUES (CONTINUED)**

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**NOTE 14 – INTERFUND TRANSFERS**

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

<b>Transfer Out</b>	<b>Transfer In</b>	<b>Purpose</b>	<b>Amount</b>
General Fund	Other Governmental Funds	Debt retirement	\$ 299,227
General Fund	Other Governmental Funds	To cover operating expenditures	4,000
General Fund	State Assignment Fund	To cover operating expenditures	8,619
State Assignment Fund	Other Governmental Funds	To cover operating expenditures	18,024
Other Governmental Funds	State Assignment Fund	To cover operating expenditures	4,945
<b>Total</b>			<b>\$ 334,815</b>

**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN**

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2011 was approximately \$323,437. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2011. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

**NOTE 16 – CONTINGENCIES**

**A. Claims and Judgments**

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 17 – FUND DEFICIT**

The Municipality has accumulated deficit of \$2,801,232 in the General Fund. The Municipality's plan adopted with 2010-2011 budget includes a balanced operating budget achieved through cost-cutting measures in the previous fiscal years. The budget does not address the cumulative General Fund deficit.

**NOTE 18 – FUND BALANCE (DEFICIT)**

As of June 30, 2011, the fund balance (deficit) classifications are as follows:

Fund Balance (Deficit)	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Other Governmental Fund	Total
<b>Restricted for:</b>							
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,715	\$ 65,715
Public Safety	-	-	-	-	-	6,088	6,088
Culture and Recreation	-	-	-	-	-	70,320	70,320
Health and Sanitation	-	-	-	-	-	97,261	97,261
Human Services and Welfare	-	-	-	-	-	260,482	260,482
Urban Development	16,967	-	3,600,474	1,322,206	1,444,057	640,261	7,023,965
Education	-	-	-	-	-	7,114	7,114
Capital Outlay	-	-	-	203,636	-	-	203,636
Debt Service	-	-	-	-	-	824,697	824,697
<b>Unassigned</b>	<u>(2,818,199)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,818,199)</u>
<b>Total Fund Balance (Deficit)</b>	<b><u>\$ (2,801,232)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,600,474</u></b>	<b><u>\$ 1,525,842</u></b>	<b><u>\$ 1,444,057</u></b>	<b><u>\$ 1,971,938</u></b>	<b><u>\$ 5,741,079</u></b>

**NOTE 19 – ACCOUNTING CHANGES AND RESTATEMENTS**

**A. Governmental Fund Financial Statements**

The following restatements have been made in the Governmental Fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	State Assignment Fund	Capital Project Fund	Other Governmental Fund
Fund balance, beginning	\$ (2,605,463)	\$ 4,524,903	\$ 1,794,267	\$ 1,141,504
To adjust the State Department of Treasury debt	(39,048)	-	-	-
To recognized an intergovernmental receivable with the General Service Administration	61,563	-	-	-
Adjustments as per GASB 54	(12,319)	44,423	(52,830)	20,471
Section 8 Housing Choice Vouchers	-	-	-	(3,828)
<b>Fund balance, beginning, as restated</b>	<b><u>\$ (2,595,267)</u></b>	<b><u>\$ 4,569,326</u></b>	<b><u>\$ 1,741,437</u></b>	<b><u>\$ 1,158,147</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 19 – ACCOUNTING CHANGES AND RESTATEMENTS (CONTINUED)

B. Governmental Wide Financial Statements

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 18,396,842
To recognized an intergovernmental payable with the State Health Insurance Administration	(379,223)
To adjust the State Department of Treasury debt	(39,048)
To recognized an intergovernmental receivable with the General Service Administration	61,563
Adjustments to accounts receivables	(255)
Section 8 Housing Choice Vouchers	<u>(3,828)</u>
<b>Net assets, beginning, as restated</b>	<b><u>\$ 18,036,051</u></b>

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

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>RESOURCES (INFLOWS):</b>				
Property Taxes	\$ 1,893,089	\$ 1,893,089	\$ 1,842,441	\$ (50,648)
Sales Taxes	500,000	500,000	564,129	64,129
Volume of Business Taxes	1,100,000	1,100,000	989,844	(110,156)
Intergovernmental Revenues	5,256,705	5,256,705	5,304,623	47,918
Licenses and Permits	254,000	254,000	687,813	433,813
Rent	135,000	135,000	101,563	(33,437)
Miscellaneous	989,996	989,996	318,723	(671,273)
<b>Total Resources (Inflows)</b>	<u>10,128,790</u>	<u>10,128,790</u>	<u>9,809,136</u>	<u>(319,654)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Current:				
Mayor and Municipal Legislature	1,847,463	2,036,747	2,253,034	(216,287)
General Government	3,174,180	3,003,927	2,740,676	263,251
Public Safety	536,726	480,933	479,871	1,062
Public Works	2,645,576	2,879,141	2,650,230	228,911
Culture and recreation	413,279	392,996	391,855	1,141
Health and Sanitation	76,659	42,088	215,466	(173,378)
Human Services and Welfare	1,047,781	993,730	991,098	2,632
Transfer to Other Funds	387,126	299,228	299,227	1
<b>Total changes to appropriations</b>	<u>10,128,790</u>	<u>10,128,790</u>	<u>10,021,457</u>	<u>107,333</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (212,321)</u>	<u>\$ (212,321)</u>

See accompanying Notes to Required Supplementary Information

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

**NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A – EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES**

	<u>GENERAL FUND</u>
<b>Sources/inflows of resources:</b>	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule (Page 46)	\$ 9,809,136
Differences-budget to GAAP:	
Prior and current adjustments to revenues	7,390
Total revenues as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances (Page 13)	<u>\$ 9,816,526</u>
<b>Uses/outflows of resources:</b>	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (Page 46)	\$ 10,021,457
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditures for financial reporting purposes	81,760
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(102,936)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(299,227)
Adjustment to expenditures	9,591
Total expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances (Page 13)	<u>\$ 9,710,645</u>

**NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY CONTROL**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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**NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**A. BUDGETARY CONTROL (CONTINUED)**

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (Note B)	Pass-Through Entity Identifying Number (Note C)	Federal Expenditures (Note A)
<b><u>U.S. Department of Agriculture</u></b>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	N/AV	<u>\$ 479,222</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct Program: Section 8 Housing Choice Vouchers	14.871	N/A	<u>813,944</u>
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	10-AB-55 09-AB-55 09-FC-55 08-FE-55 08-AB-55 07-FC-55 06-FC-55 05-AB-55 04-FC-55 04-AB-55 03-FC-55 02-AB-55 01-FD-55 99-FC-55	1,062,249
ARRA- Community Development Block Grant - State program	14.255	08-AB-DR-55	167,628
Subtotal Community Development Block Grant			<u>1,229,877</u>
Passed through State- Puerto Rico Housing Administration Public and Indian Housing	14.850	RQ005009032	<u>376,710</u>
Passed through the P.R. Department of Family - Families and Children Administration: ARRA- Homelessness Prevention and Rapid Rehousing	14.257	2010-000275	<u>114,315</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>2,534,846</b></u>
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through the Commonwealth of Puerto Rico Governor Office - Public Security Affairs Office Disaster Grants - Public Assistance	97.036	Not available	<u>6,776</u>

Continue

**MUNICIPALITY OF SABANA GRANDE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (Note B)</u>	<u>Pass-Through Entity Identifying Number (Note C)</u>	<u>Federal Expenditures (Note A)</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Direct Program:			
Early Head Start	93.600	Not available	542,070
ARRA-Early Head Start	93.709	02SE9893	19,462
Pass-through: Administration for Childhood Care and Integral Development:			
Head Start	93.600	241-2010-000181	
		241-2011-000349	4,773,852
ARRA-Head Start		241-2010-000140	153,379
Total Head Start Cluster	93.708		<u>5,488,763</u>
Direct Program:			
Family Violence Prevention and Services	93.592		<u>72,142</u>
Passed through State - Elderly office			
Special program for Aging, Title III, Part B	93.044		<u>1,497</u>
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575		203,598
ARRA- Child care development block grants	93.713		9,749
Total Child Care and Development Block Grant Cluster			<u>213,347</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>5,775,749</u></b>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 8,796,593</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2011**

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**NOTE 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.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The 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.

**NOTE 3 FEDERAL CFDA NUMBER**

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

**NOTE 4 PASS THROUGH GRANTOR'S NUMBER**

State or local government redistribution of federal awards to the Municipality, 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.

**NOTE 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  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
JUNE 30, 2011

NOTE 6 – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Head Start Program	Other Governmental Funds
10.558	\$ -	\$ 479,222
14.228	-	813,944
14.255	-	1,062,249
14.850	-	167,628
14.257	-	376,710
14.871	-	114,315
97.036	-	6,776
93.044	-	542,070
93.575	-	19,462
93.713	-	72,142
93.600	4,773,852	-
93.708	-	153,379
93.592	-	1,497
93.600	-	203,598
93.709	-	9,749
Total federal awards expenditures	<u>4,773,852</u>	<u>4,022,741</u>
Total nonfederal awards expenditures	<u>-</u>	<u>4,078,641</u>
Total expenditures, fund statements	<u>\$ 4,773,852</u>	<u>\$8,101,382</u>

END OF NOTES

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

Honorable Mayor and Member of the  
Municipal Assembly  
Municipality of Sabana Grande, Puerto Rico

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Sabana Grande, Puerto Rico as of and for the year ended June 30, 2011, which collectively comprise Municipality of Sabana Grande, Puerto Rico's basic financial statements and have issued our report thereon dated March 16, 2012. The report on governmental activities was adverse because the Municipality of Sabana Grande, Puerto Rico had not recorded certain general infrastructure assets in governmental activities and, accordingly, had not recorded depreciation expenses on these assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in a normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying schedule of finding and questioned costs as items 2011-II-1 and 2011-II-2 to be material weaknesses.

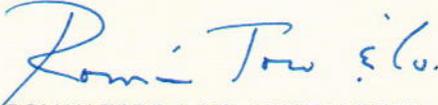
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs as item 2011-II-3 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Sabana Grande, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2011-II-2.

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

This report is intended solely for the information and use of management, others within the entity, Municipal Assembly, 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.

  
ROMAN TORO & CO., CONTADORES  
PUBLICOS AUTORIZADOS, CSP  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 16, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Member of the  
Municipal Assembly  
Municipality of Sabana Grande, Puerto Rico

**Compliance**

We have audited Municipality of Sabana Grande, Puerto Rico's compliance, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Sabana Grande, Puerto Rico's major federal programs for the year ended June 30, 2011. Municipality of Sabana Grande, Puerto Rico'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 Municipality of Sabana Grande's management. Our responsibility is to express an opinion on Municipality of Sabana Grande's compliance based on our audit.

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

In our opinion, Municipality of Sabana Grande, Puerto Rico, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

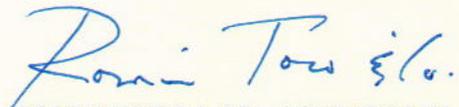
**Internal Control Over Compliance**

Management of Municipality of Sabana Grande, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Sabana Grande, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Sabana Grande, Puerto Rico's internal control over compliance.

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

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

This report is intended solely for the information and use of management, Municipal Assembly, others within the entity, 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.

  
ROMAN TORO & CO., CONTADORES  
PUBLICOS AUTORIZADOS, CSP  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 16, 2012

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the original of this report

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

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**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditor's report issued:

- Governmental Wide Financial Statements *Adverse Opinion*
- Governmental Funds Financial Statements *Unqualified Opinion*

Internal control over financial reporting:

- Significant control deficiency identified?  Yes  None reported
- Material weakness (es) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Significant control deficiency identified?  Yes  None reported
- Material weakness (es) identified?  Yes  No

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.228; 14.255	Community Development Block Grant Program – State Program Cluster
14.850	Public and Indian Housing
14.871	Section 8 – Rental Housing Choice Vouchers
93.600; 93.709; 93.708	Head Start and Early Head Start Program Cluster

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

Auditee qualified as low-risk auditee?  Yes  No

**END OF SECTION**

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

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2011-II-1**

Type of finding: Financial statement.

Situation: Material Weakness in financial reporting; compliance with local regulations.

Prior-Year(s) Audit Finding(s): 2009-II-1, 2010-II-1

Questioned Costs: None.

**Condition:**

The Municipality did not account for certain capital assets, and the impact of such omission was sufficient as to cause the financial statements as a whole to be in discordance with generally accepted accounting principles (GASB 34), for which an adverse auditor's opinion was issued.

**Context:**

During our review the Municipality's accounting records over its capital assets, we found that the Municipality had not accounted for certain general infrastructure assets nor the respective depreciation expense on those which existed before the implementation of the Governmental Accounting Standards Board's Statement No. 34, which required the accounting for all types of capital assets for reporting in each government's financial statements.

**Criteria:**

GASB 34 requires that general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. Additionally, the Municipality must maintain accurate and complete records of its property, as required under Chapter VII of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM). Finally, the Municipality must maintain adequate records and documentation in order to substantiate account balances and transactions and overall governmental fiscal operations for examination and audit, as required by Article 8.015 of Law #81 of August 30, 1991 and by Law # 5 of December 8, 1955.

**Cause:**

The Municipality's staff did not perform the accounting for infrastructure assets which existed before the implementation of GASB 34, which allowed the retroactive estimation of asset values and recording of accounting costs for infrastructure assets up to June 30, 2007 in order to present a complete financial position of the capital assets of the Municipality.

**Effect:**

The Municipality's financial statements as of June 30, 2011 were not in accordance with generally accepted accounting principles.

**Auditor's Recommendation:**

The Municipality should account for all its infrastructure assets, in order to present the most accurate financial position in its financial statements, in full accordance with generally accepted accounting principles.

**Views of responsible officials and corrective actions:**

The Finance Department is accounting for all the capital assets. Currently, we are at 50% of the process and expect to finish at June 30, 2013.

**Audit finding status**

Unresolved.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

**2011-II-2**

Type of finding: Financial statement.

Situation: Material Weakness in financial reporting; compliance with local regulations.

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

**Condition:**

The Municipality's General Fund has used restricted resources from other funds in order to provide for its operations.

**Context:**

The Municipality's General Fund used cash resources from the Municipality's State Assignment Fund for its operations, which has created, as of June 30, 2011, an outstanding liability totaling \$391,584. The State Assignment Fund consists of grants and contributions from the State Legislature which are restricted by Joint Resolutions of both the State House of Representatives and Senate.

**Criteria:**

Local laws and regulations prohibit Municipalities from the use of restricted funds to cover the costs of unauthorized activities. Additionally, each State Assignment grants and contribution is individually restricted to their use by the Resolution passed by the State Legislature, and any other use not previously included in the Resolution requires strict and expressive consent by the State Legislature, as per Chapter III, Section 2 of the Municipal Administration Manual as issued by the Puerto Rico Commissioner's Office for Municipal Affairs.

**Cause:**

The Municipality's General Fund cash resources have been decreasing significantly over the course of several years due to excess expenditures over revenues. When an obligation with the U.S. Internal Revenue Service was liquidated in 2007, it used restricted resources of this fund.

**Effect:**

One of the Municipality's funds was left without sufficient resources to comply with the activities for which such appropriations were obtained and restricted.

**Auditor's Recommendation:**

The Municipality's General Fund should reimburse all resources obtained from such funds as immediate as resources become available. The Municipality should revise its controls to assure that General Fund's operations do not infringe on the resources and appropriations of other funds whose use are restricted.

**Views of responsible officials and corrective actions:**

The Finance Department is in the process of identifying the funds to reimburse all the resources obtained from the restricted funds.

**Audit finding status:**

Unresolved.

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

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**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

**2011-II-3**

Type of finding: Financial statement.

Situation: Significant deficiency in financial reporting; compliance with local regulations.

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

**Condition:**

The Municipality does not void check payments from the General Fund's main checking bank account, which have not been cancelled and collected by the payees for a significant period of time.

**Context:**

Our audit tests revealed that the General Fund's main checking bank account had 377 checks emitted and outstanding but not yet cancelled by the payees as of June 30, 2011 totaling \$416,334, which caused an overdraft of that account in the amount of \$276,470. Of these checks, 109 had been emitted and remained outstanding for a period ranging from approximately 1 to 8 years prior to June 30, 2011.

**Criteria:**

The Municipality is required to maintain adequate internal controls to safeguard its most essential asset, cash. Article 6.005(c) and (f) of Law 81 of August 31, 1991, also known as the Autonomous Municipalities Law, states that the Municipality's accounting system should provide complete and adequate information about its results of operations and its cash flows. It also adds in Article 8.010(c) and (d) that internal controls should be implemented to reduce the likelihood of irregularities.

**Cause:**

The Municipality did not complete its reconciling procedures, which should have included reverting the checks, recording a liability awaiting payee reclamation, and cancelling the checks via stop payment orders to the bank in order to minimize the risks of theft, loss, and fraud. Additionally, the Municipality did not conduct proper follow-up procedures of such payments, inquiring the respective payees as to why they had yet to cancel and collect their payments.

**Effect:**

The situations described above increase the risk of loss or misappropriation of cash, an essential asset to the Municipality's and the federal program's operations.

**Auditor's Recommendation:**

The Municipality should implement sufficient internal controls to properly account for and minimize instances of check payments which have been outstanding for a significant amount of time, preferably no longer than 6 months, in order to minimize the risks of misappropriation. Additionally, the Municipality should implement controls consisting of contacting payees of old outstanding checks to assure that payments are collected and cancelled promptly.

**Views of responsible officials and corrective actions:**

The Finance Department is in the process to void all the checks which exceeds 6 months from issuance date. We have instructed to the employee who prepares the bank reconciliations to be aware of the checks outstanding for a period of time longer than 6 months and prepare a report to proceed with the cancelation of those checks.

**Audit finding status:**

Unresolved.

END OF SECTION

**MUNICIPALITY OF SABANA GRANDE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

**END OF SECTION**

COMMONWEALTH OF PUERTO RICO  
 MUNICIPALITY OF SABANA GRANDE  
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
 FOR THE YEAR ENDED JUNE 30, 2011

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
		(1) Prior Audit Findings fully corrected or not noted during our audit:			
		None.			
		(2) Prior Audit Findings not corrected or partially corrected:			
		None.			
		(3) Corrective action taken is significantly different from corrective action previously reported:			
		None.			
		(4) Prior Audit Findings are no longer valid:			
		None.			
END OF SCHEDULE					