

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

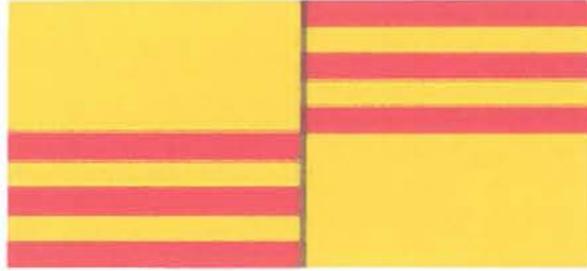
**MUNICIPIO DE SAN LORENZO**

**AUDITORIA 2006-2007**

**30 DE JUNIO DE 2007**

COMISION DEL TRIBUNAL  
MUNICIPAL  
FEB 25 11:11  
MUNICIPALIDAD DE SAN LORENZO

*Castro - 926*



**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**  
**SINGLE AUDIT REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2007**



*Handwritten initials*

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2007

CONTENTS

<b>FINANCIAL SECTION</b>	<b>PAGE</b>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-15
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Assets	16
Statement of Activities	17
<b>Fund Financial Statements:</b>	
Balance Sheet-Governmental Funds	18-19
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures, and Changes in	
Fund Balance-Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures	
and changes in fund balance of Governmental Funds to	
the Statement of Activities	22
<b>Notes to the Basic Financial Statements</b>	23-41
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	42
Note to Budgetary Comparison Schedule – General Fund	43
<b>SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	45
Independent Auditors' Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters	
Based on an Audit of Financial Statements Performed in	
Accordance with <i>Government Auditing Standards</i>	46-47
Independent Auditors' Report on Compliance with	
Requirements Applicable to Each Major Program and	
on Internal Control Over Compliance in Accordance with	
OMB Circular A-133	48-49
Schedule of Findings and Questioned Costs	50-58
Summary Schedule of Prior Audit Findings	59

**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**FINANCIAL SECTION**

**YEAR ENDED JUNE 30, 2007**



**ROMAN TORO & CO., PSC**

**Certificate Public Accountants**

Honesty - Integrity - Experience

Members of:  
American Institute of Certified Public Accountants  
and PR Society of Certified Public Accountants

José D. Román Toro, CPA, President

PO Box 3043  
Yauco PR 00698-3043  
Tel. (787) 856-6220  
Fax (787) 856-6233

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of San Lorenzo, 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 San Lorenzo, Puerto Rico**, as of and for the year ended June 30, 2007, which collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of San Lorenzo, Puerto Rico's management. Our responsibility is to express an opinion 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 *Governmental 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Lorenzo, Puerto Rico, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the Municipality of San Lorenzo, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**INDEPENDENT AUDITOR'S REPORT  
(CONTINUED)**

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 42 through 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of San Lorenzo, Puerto Rico basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Municipality of San Lorenzo, Puerto Rico. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ROMAN TORO & CO., CSP  
LICENSE #35 – IN FORCE

Yauco, Puerto Rico  
December 21, 2007

Stamp #2263781 was affixed to  
the original of this report

**MANAGEMENT DISCUSSION AND ANALYSIS**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The following discussion and analysis of the Municipality of San Lorenzo's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the financial statements which follow this section.

### **FINANCIAL HIGHLIGHTS**

#### **Highlights for Government-wide Financial Statements**

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2007 by \$20,442,627 (net assets).
- Revenues increased by \$7,011,250 (41.7%) and expenses increased by \$3,020,025 (16.1%) in comparison with year 2006, as restated.
- Net change in net assets amounted to \$2,062,388, an increase of 193.5% with respect to prior year (2006) net change.

#### **Highlights for Fund Financial Statements**

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$9,629,251, an increase of \$6,429,991 in comparison with the prior year.
- The General Fund reported an excess of revenues over expenditures and other financing sources of \$875,635 and an unreserved (deficit) fund balance of (\$57,414). Unreserved (deficit) fund balances decreased by \$728,896 from prior year.

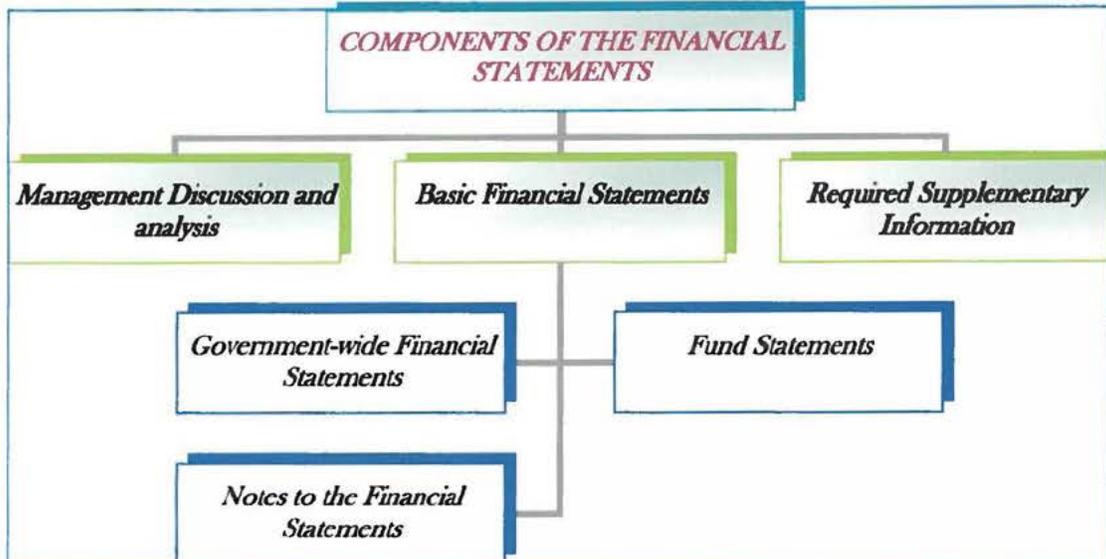
#### **General Financial Highlights**

- The investment in net capital assets as of June 30, 2007 was \$20,723,568 (net of related debt).
- Long term debt general and special obligations increased to \$16,787,766, approximately 44% with respect to prior year balance for the issuance of a special note of \$6,000,000 for the construction of the Activities Center Building.
- Other long term debts increases and net reductions from payments amounted to \$100,454 and \$366,380, respectively.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$873,629.
- Revenues increase was mainly in capital contributions received from state government of \$6,446,054, property tax of \$1,177,654, construction taxes of \$757,280 and the new source of income sales taxes of \$341,316. There was significant reduction in operating grants of \$2,021,745.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

**Basic Financial Statements**

◆ **Government-Wide Financial Statements**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

◆ **Fund Financial Statements**

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

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

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

◆ **Notes to the financial statements**

Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

**Required supplementary information**

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

The following table presents a summary of the Statements of Net Assets as of June 30, 2007 and 2006:

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 11.35% with respect to prior year as restated. The most significant changes were a decreased in unrestricted assets (deficit) of \$1,958,547 and a restatement of capital assets of \$5,912,308 by the inclusion of infrastructures in accordance with GASB Statement Number 34.

	2007	2006
Current and non-current assets (As Restated) .....	\$14,020,513	\$ 6,832,331
Capital assets (As Restated) .....	<u>28,483,542</u>	<u>28,236,820</u>
<b>Total Assets</b> .....	<b><u>42,504,055</u></b>	<b><u>35,069,151</u></b>
Current liabilities .....	686,459	652,584
Deferred revenues (As Restated) .....	1,986,500	1,687,059
Long-term liabilities .....	<u>19,588,419</u>	<u>14,549,219</u>
<b>Total Liabilities</b> .....	<b><u>22,261,378</u></b>	<b><u>16,888,862</u></b>
<b>Net Assets:</b>		
Investment in capital assets, Net of Related Debt (As Restated) .....	20,723,568	20,625,570
Restricted .....	2,693,435	2,687,592
Unrestricted (Deficit) (As Restated) .....	<u>(3,174,326)</u>	<u>(5,132,873)</u>
<b>Total Net Assets</b> .....	<b><u>\$20,242,677</u></b>	<b><u>\$18,180,289</u></b>

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$20,723,568; total capital assets (\$37,255,541) less accumulated depreciation (\$8,771,999) and less any related outstanding debt (\$7,759,974) used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

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

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

As of June 30, 2007 the Municipality presented unrestricted (deficit) net assets of (\$3,174,326). This balance was affected by long term obligations such as compensated absences \$1,315,701 and other debts for the amount of \$1,484,952 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

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

**Changes in net assets**

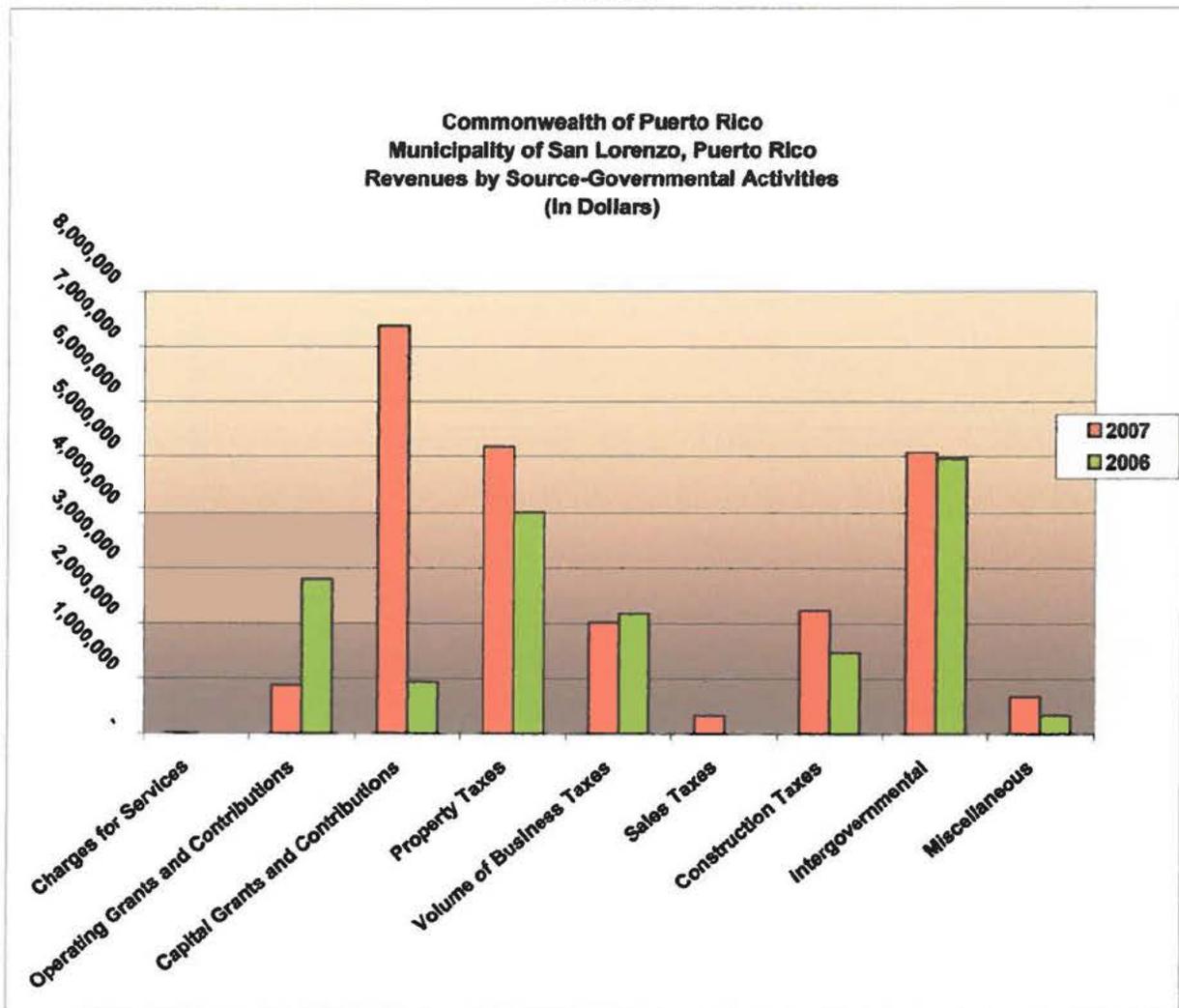
The following table summarizes the changes in net assets for the years ended June 30, 2007 and 2006:

	2007	2006
<b>Revenues:</b>		
Program Revenues:		
Charges for Services.....	\$ 2,200	\$ -
Operating Grants and Contributions....	877,912	2,899,657
Capital Grants and Contributions .....	7,383,034	936,980
General Revenues:		
Property Taxes.....	5,185,157	4,007,498
Volume of Business Taxes.....	2,017,831	2,175,033
Sales Tax .....	341,316	-
Construction Taxes .....	2,231,588	1,474,308
Intergovernmental .....	5,084,201	4,961,567
Interest and other General Revenues .	692,533	349,479
<b>Total revenues</b> .....	<u>23,815,772</u>	<u>16,804,522</u>
<b>Expenses:</b>		
General Administration.....	9,404,211	8,809,276
Public Safety .....	931,434	901,861
Public Works .....	4,924,550	1,888,780
Culture and Recreation .....	770,101	517,066
Health and Sanitation.....	637,459	697,060
Solid Waste Disposal .....	1,764,335	1,650,188
Human Services and Welfare.....	1,047,600	938,163
Urban Development.....	1,247,656	2,909,721
Interest Costs .....	1,026,038	421,244
<b>Total expenses</b> .....	<u>21,753,384</u>	<u>18,733,359</u>
<b>Changes in net assets</b> .....	<b>2,062,388</b>	<b>(1,928,837)</b>
Net assets – beginning, as Restated* .....	<u>18,180,289</u>	<u>20,109,126</u>
<b>Net assets – ending</b> .....	<u><b>\$20,242,677</b></u>	<u><b>\$18,180,289</b></u>

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

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

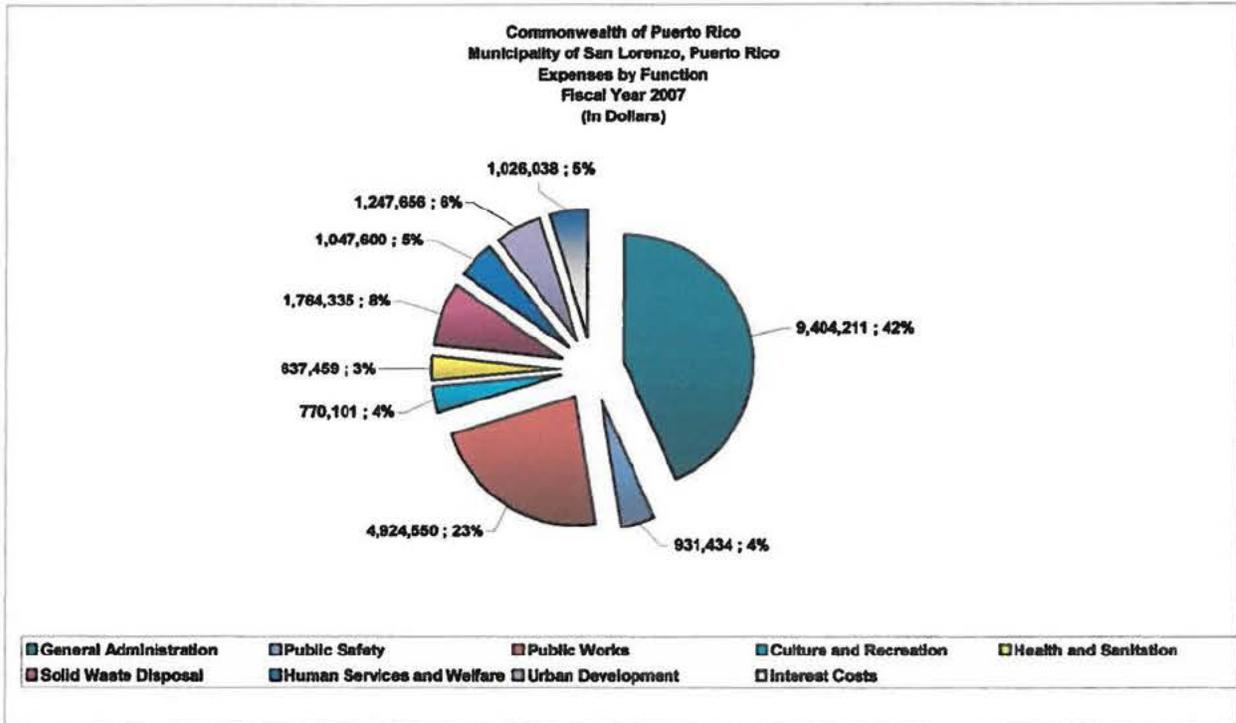
**FIGURE 1**



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

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2006-2007:

**FIGURE 2**



Approximately 21.4% of the Municipality's revenues came from intergovernmental, 22.2% from property taxes, 35.3% from grants and contributions, and 21.1% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 42.8%, public works with 22.8%, solid waste disposal with 8.2% and urban development with 6%. Program revenues of the Municipality covered 38.3% of total expenses.

With respect to prior year, revenues increased by approximately \$7 million or 41.7%, principally on capital grants and contributions.

Expenses increased 16.1% or \$3,020,025 in comparison with 2006 year. Significant increases were registered on public works incurred for the benefit of the community.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**TABLE 3**

<b>Net Cost of Municipality's Governmental Activities</b>				
<b>Fiscal years ended June 30,</b>				
<b>Functions/Programs</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
General Administration	\$ 9,404,211	\$ 8,809,276	\$ 8,688,304	\$ 7,519,049
Public Safety	931,434	901,861	923,311	887,578
Public Works	4,924,550	1,888,780	983,012	1,888,780
Solid Waste Disposal	1,764,335	1,650,188	1,764,335	1,650,188
Human Services and Welfare	1,047,600	938,163	(1,989)	(386,512)
Urban Development	1,247,656	2,909,721	(1,292,477)	1,707,640
Others	2,433,598	1,635,370	2,425,742	1,630,009
	<u>\$21,753,384</u>	<u>\$18,733,359</u>	<u>\$13,490,238</u>	<u>\$14,896,732</u>

Some of the cost of governmental activities in 2007 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$8,260,946). The \$13,490,238 net cost of services was substantially covered by other general revenues including property, volume of business, license taxes and intergovernmental.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

**Governmental funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2007, the governmental funds reported combined ending fund balances of \$9,629,251, a net increase of \$6,429,991 in comparison with the prior year. This increase was primarily by a net change in the general fund of \$875,635, and a proceeded of note of \$6,000,000. Of total combined fund balances, (\$57,414) constitutes unreserved (deficit) fund balance of general fund which was financed by the used of state assignments fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

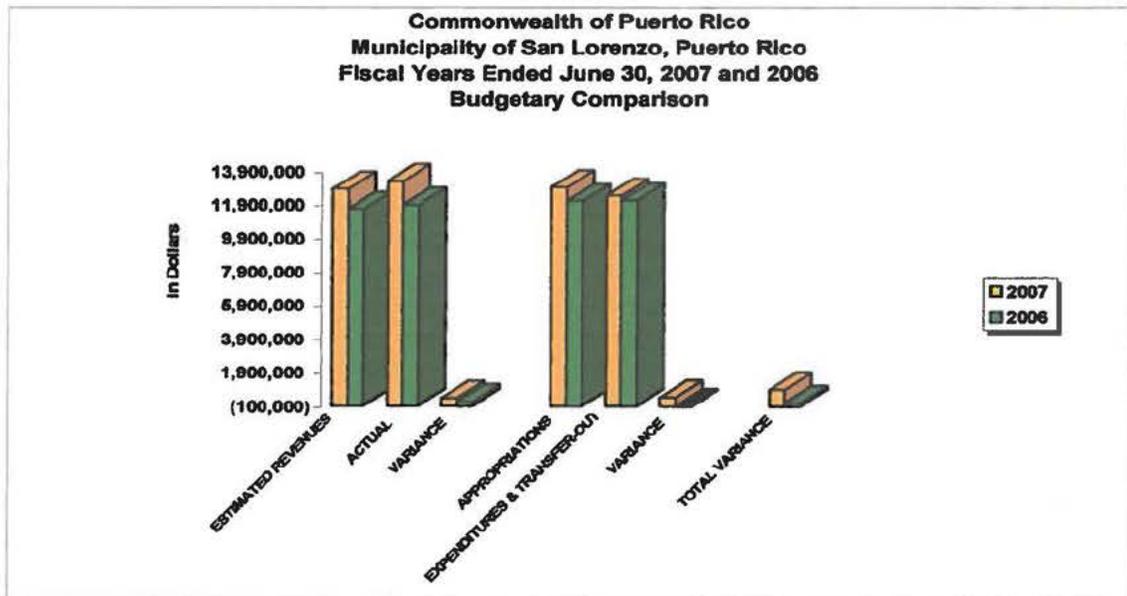
The general fund is the operating fund of the Municipality. Unreserved (deficit) fund balance of the general fund represents approximately 9% of total ending general fund balance. For the year ended June 30, 2007, the deficit of the general fund (\$224,018) was eliminated by the net change of \$875,635 when compared with the prior year.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2006-2007 presented an increase of 4.3% with respect to prior year budget. During the fiscal year budget revenues were increased by \$703,941 due to a revision of original estimate of property taxes and the enacted sales tax revenues. The Municipality does not included as an amendment to the budget the positive changes on others revenues. Budget expenditures were amended during the year in accordance with additional revenues and functions estimates (see Figure 3 below).

**FIGURE 3**



The positive variance of \$981,269 between revised budget and actual results was due mainly to increase in revenues as explain in the preceding paragraph, and economies generated during the year. The Municipality reported less expenditure than appropriations in those functions for payments to purchase of supplies, professional and nonprofessional services.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality has invested \$28,483,542 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, construction in progress and equipment. This amount represents a net increase of \$246,772 or 1% from the prior year, as restated.

**TABLE 4**

Capital Assets, net As of June 30,		
	Governmental Activities	
	2007	(As restated) 2006
<b>Non-depreciable assets:</b>		
Land	\$ 8,511,616	\$ 8,511,616
Construction in progress	2,479,022	1,989,364
<b>Depreciable assets:</b>		
Buildings	11,677,597	12,074,118
Infrastructure	4,588,859	4,353,601
Machinery and Equipment	172,858	147,557
Motor Vehicles	1,053,590	1,160,564
<b>Total</b>	<b>\$28,483,542</b>	<b>\$28,236,820</b>

The Municipality invested a total of \$1,134,655 of capital assets during the fiscal year 2006-2007 as follows:

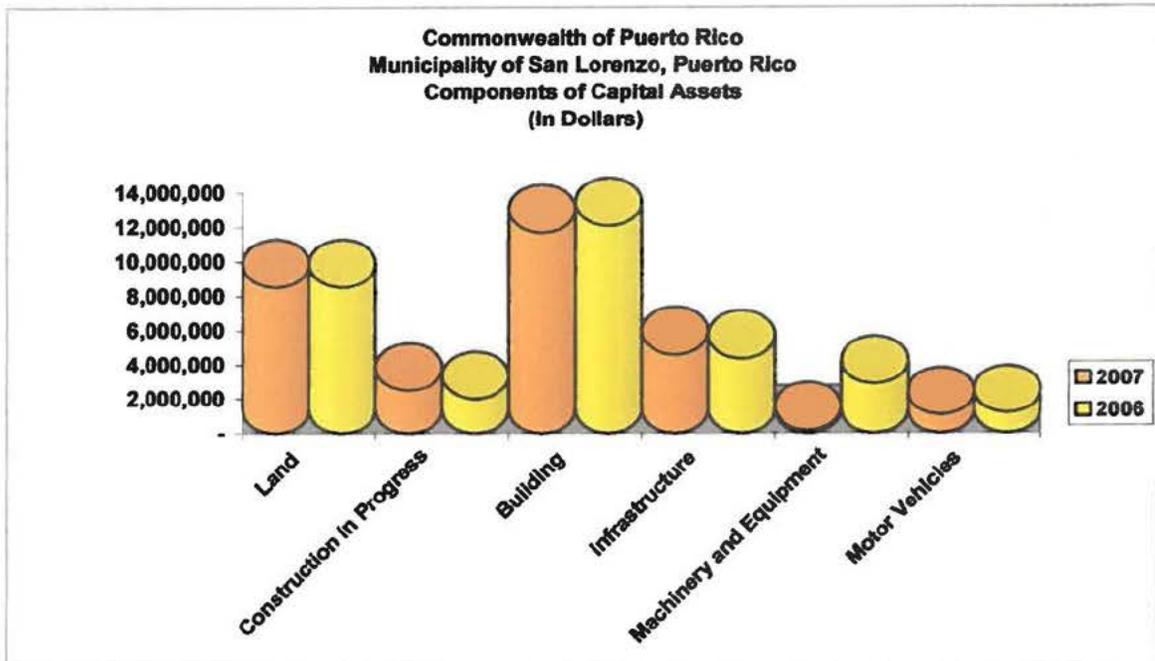
- Construction in Progress – \$489,658
- Infrastructure – \$410,303
- Acquisition of Equipment and Vehicles – \$234,694

A restatement of \$5,912,308 was made to capital assets. Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2007.

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

Figures 4 below present the components of capital assets during the fiscal years 2007 and 2006:

**FIGURE 4**



**Long term debt**

At year-end, the Municipality had \$16,787,766 in general and special obligations, an increase of 44% with respect to prior year due to the issuance of \$6.0 million of special obligation. The following is a summary of the Municipality's outstanding debt as of June 30, 2007 and 2006:

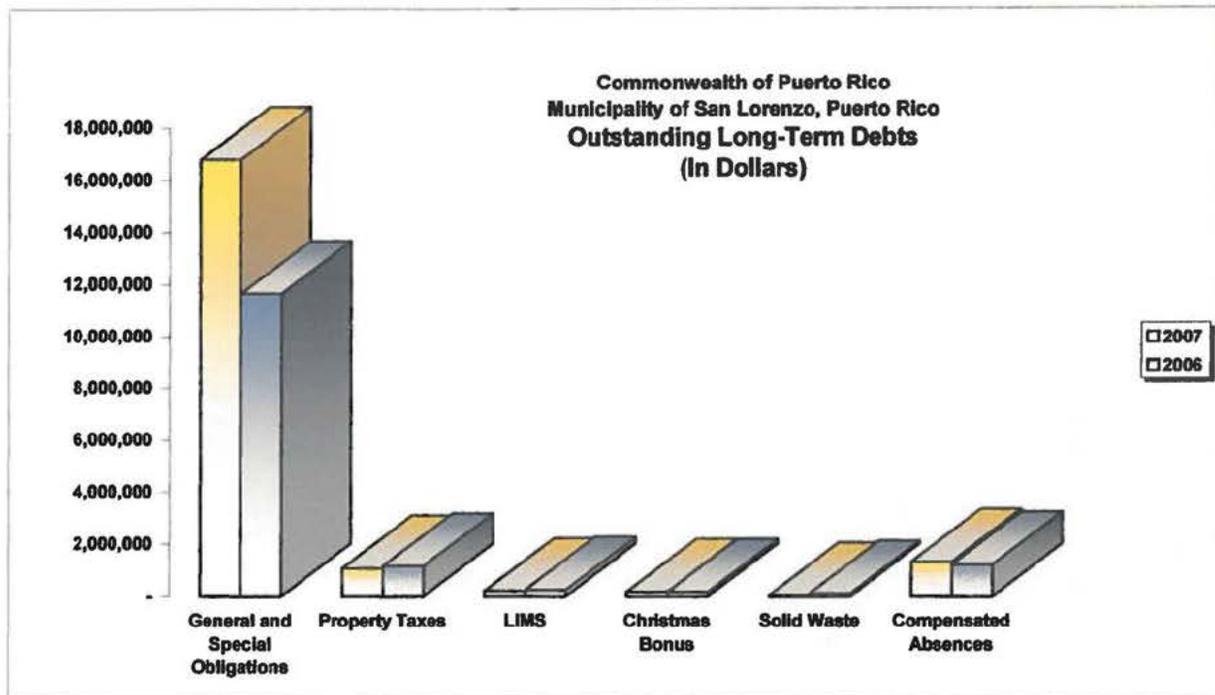
**TABLE 5**

	<b>Outstanding Long-term Debt As of June 30,</b>	
	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
General and Special Obligations	\$16,787,766	\$11,658,079
Property Taxes	1,065,331	1,155,855
LIMS	206,960	245,996
Christmas Bonus	175,439	164,820
Solid Waste Disposal	37,222	109,222
Compensated Absences	1,315,701	1,215,247
<b>Total</b>	<b>\$19,588,419</b>	<b>\$14,549,219</b>

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

Figure 5 present the components of long-term debts during the fiscal year 2007 and 2006:

**FIGURE 5**



More detailed information about the Municipality's long term liabilities is presented in Note 8 and 9 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2006-2007 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 14.8%, which compares with the Commonwealth rate of 12.1%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2008 are \$15.5 million, approximately \$3.4 million more than the fiscal year 2007. The Municipality expects an increase in revenues for the next years due to increase in construction taxes and a new sales tax enacted by state legislature and Municipality ordinance during fiscal year 2006-2007. Also, revenues increases from other sources are demonstrative of the economic development from new commerce and stability of the manufacturing industry. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects were develop during the year.

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

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finance Department at (787) 736-3511, or PO Box 1289, San Lorenzo, PR 00754.

**BASIC FINANCIAL STATEMENTS**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and Investments (Note 2) .....	\$ 8,603,857
Cash with Fiscal Agent .....	2,797,845
Receivables (net):	
Property Taxes .....	221,428
Sales Taxes .....	85,320
Due from Governmental Units .....	222,127
Federal Grants .....	1,761,716
Others (Note 4) .....	249,890
Deferred Charges .....	78,330
Capital Assets (Note 7):	
Land, Improvement, and Construction in Progress .....	10,990,638
Other Capital Assets, [Net of Depreciation] .....	<u>17,492,904</u>
<b>TOTAL ASSETS</b> .....	<b><u>42,504,055</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses .....	458,384
Accrued Interest .....	228,075
Deferred Revenues .....	1,986,500
Long-Term Liabilities (Note 8)	
Due within One Year .....	1,749,128
Due in More than One Year .....	<u>17,839,291</u>
<b>TOTAL LIABILITIES</b> .....	<b><u>22,261,378</u></b>
<b>NET ASSETS</b>	
Investment in Capital Assets, Net of Related Debt .....	20,723,568
Restricted for: .....	
Capital Projects .....	96,257
Debt Service .....	1,680,206
Community Development Projects .....	916,972
Unrestricted (Deficit) .....	<u>(3,174,326)</u>
<b>TOTAL NET ASSETS</b> .....	<b><u>\$20,242,677</u></b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature.....	\$ 1,453,961	\$ -	\$ -	\$ -	(\$ 1,453,961)
General Government.....	7,950,250	2,200	-	713,707	(7,234,343)
Public Safety.....	931,434	-	7,848	275	(923,311)
Public Works.....	4,924,550	-	-	3,941,538	(983,012)
Culture and Recreation.....	770,101	-	-	-	(770,101)
Health and Sanitation.....	637,459	-	-	7,856	(629,603)
Solid Waste Disposal.....	1,764,335	-	-	-	(1,764,335)
Human Services and Welfare.....	1,047,600	-	870,064	179,525	1,989
Urban Development.....	1,247,656	-	-	2,540,133	1,292,477
Interest on Long-Term Debt.....	1,026,038	-	-	-	(1,026,038)
<b>Total Governmental Activities.....</b>	<b>\$ 21,753,384</b>	<b>\$ 2,200</b>	<b>\$ 877,912</b>	<b>\$ 7,383,034</b>	<b>(\$13,490,238)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property Taxes, levied for General Purposes.....					3,469,946
Property Taxes, levied for Debt Service.....					1,715,211
Volume of Business Taxes.....					2,017,831
Sales Taxes.....					341,316
Construction Taxes.....					2,231,588
Intergovernmental.....					5,084,201
Interest.....					470,779
Miscellaneous.....					221,754
<b>Total General Revenues and Transfers.....</b>					<b>15,552,626</b>
<b>CHANGES IN NET ASSETS.....</b>					<b>2,062,388</b>
Net Assets – Beginning of Year, As Restated (Note 16).....					18,180,289
<b>NET ASSETS – ENDING OF YEAR.....</b>					<b>\$20,242,677</b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>GENERAL</u>	<u>ACTIVITIES CENTER</u>	<u>SBGP</u>	<u>DEBT SERVICE</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>						
Cash and Investments .....	\$1,589,721	\$5,914,174	\$ 21	\$ -	\$ 1,099,941	\$ 8,603,857
Cash with Fiscal Agents.....	1,636	-	-	1,703,992	1,092,217	2,797,845
Receivables:						
Property Taxes.....	-	-	-	221,428	-	221,428
Sales Tax.....	85,320	-	-	-	-	85,320
Federal Grant.....	-	-	1,571,545	-	190,171	1,761,716
Due from Governments.....	222,127	-	-	-	-	222,127
Due from Other Funds.....	1,273,714	-	-	-	462,790	1,736,504
Others .....	-	-	-	-	162,171	162,171
<b>TOTAL ASSETS.....</b>	<b><u>\$3,172,518</u></b>	<b><u>\$5,914,174</u></b>	<b><u>\$1,571,566</u></b>	<b><u>\$1,925,420</u></b>	<b><u>\$ 3,007,290</u></b>	<b><u>\$15,590,968</u></b>

Continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS, Continued  
JUNE 30, 2007

	GENERAL	ACTIVITIES CENTER	SBGP	DEBT SERVICE	OTHER GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Account Payable .....	\$ 304,155	\$ -	\$ 101,719	\$ -	\$ 2,418	\$ 408,292
Bonds and Notes .....				370,000		370,000
Accrued Interest .....	-	-	-	228,075	-	228,075
Due to Governmental Units .....	8,119	-	-	-	41,973	50,092
Due to Other Funds .....	-	-	509,720	17,139	1,209,645	1,736,504
<b>Deferred Revenues:</b>						
Volume of Business Tax .....	1,986,500	-	-	-	-	1,986,500
Others .....	222,127	-	-	-	-	222,127
Federal Grants .....	-	-	960,127	-	-	960,127
<b>Total Liabilities .....</b>	<b><u>2,520,901</u></b>	<b><u>-</u></b>	<b><u>1,571,566</u></b>	<b><u>615,214</u></b>	<b><u>1,254,036</u></b>	<b><u>5,961,717</u></b>
<b>Fund Balance (Deficit):</b>						
<b>Reserved For:</b>						
Encumbrances .....	\$ 709,031	\$ -	\$ -	\$ -	\$ -	\$ 709,031
Debt Service .....	-	-	-	1,310,206	-	1,310,206
Designated for Future Expenditures .....	-	5,914,174	-	-	1,753,254	7,667,428
Undesignated .....	<u>(57,414)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,414)</u>
<b>Total Fund Balances (Deficit) .....</b>	<b><u>651,617</u></b>	<b><u>5,914,174</u></b>	<b><u>-</u></b>	<b><u>1,310,206</u></b>	<b><u>1,753,254</u></b>	<b><u>9,629,251</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES .....</b>	<b><u>\$3,172,518</u></b>	<b><u>\$5,914,174</u></b>	<b><u>\$1,571,566</u></b>	<b><u>\$1,925,420</u></b>	<b><u>\$3,007,290</u></b>	<b><u>\$15,590,968</u></b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

JUNE 30, 2007

Total Fund Balances – Governmental Funds (Page 19)..... \$ 9,629,251

Amount reported for Governmental Activities in the Statement of Net Assets (Page 16)  
are different because:

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

Non Depreciable Capital Assets.....	\$ 10,990,638	
Depreciable Capital Assets .....	20,762,326	
Infrastructure Assets.....	5,502,577	
Accumulated Depreciation.....	<u>(8,771,999)</u>	
Total Capital Assets.....		28,483,542

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

Deferred Charges.....		78,330
-----------------------	--	--------

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:

CDBG .....	960,127	
Christmas Bonus .....	87,719	
Property Taxes .....	<u>222,127</u>	
Total Deferred Revenues.....		1,269,973

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 Special Bonds.....	(16,417,766)	
Christmas Bonus .....	(175,439)	
Note Payable-CRIM (LIMS).....	(206,960)	
Solid Waste Disposal.....	(37,222)	
Compensated Absences .....	(1,315,701)	
Law 146.....	(310,442)	
Law 42.....	(623,371)	
PR Treasury Department.....	<u>(131,518)</u>	
Total Long-Term Liabilities .....		<u>(19,218,419)</u>

Total Net Assets of Governmental Activities (Page 16) ..... \$ 20,242,677

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

	GENERAL	ACTIVITIES CENTER	SPGB	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>						
Property Taxes .....	\$3,336,346	\$ -	\$ -	\$ 1,715,211	\$ -	\$ 5,051,557
Volume of Business Taxes .....	2,017,831	-	-	-	-	2,017,831
Federal Assistance .....	-	-	937,107	-	954,412	1,891,519
Intergovernmental .....	5,078,892	-	-	-	6,271,088	11,349,980
Licenses and Permits .....	2,231,588	-	-	-	-	2,231,588
Sales Tax .....	341,316	-	-	-	-	341,316
Interests .....	470,779	205,996	-	-	-	676,775
Miscellaneous .....	223,954	-	-	-	-	223,954
<b>Total Revenues .....</b>	<b>13,700,706</b>	<b>205,996</b>	<b>937,107</b>	<b>1,715,211</b>	<b>7,225,500</b>	<b>23,784,520</b>
<b>EXPENDITURES</b>						
Current:						
Mayor and Municipal Assembly .....	1,146,985	-	-	-	-	1,146,985
General Government .....	4,768,684	-	-	-	2,108,745	6,877,429
Public Safety .....	891,839	-	-	-	8,397	900,236
Public Works .....	1,775,425	-	-	-	3,059,964	4,835,389
Culture and Recreation .....	764,841	-	-	-	-	764,841
Sanitation .....	624,038	-	-	-	13,421	637,459
Solid Waste Disposal .....	1,764,335	-	-	-	-	1,764,335
Human Services and Welfare .....	60,961	-	-	-	1,091,226	1,152,187
Urban Development .....	-	140,735	937,107	-	638,479	1,716,321
Amortization of Property Taxes Advances .....	-	-	-	-	-	-
Capital Outlay .....	158,860	-	-	-	975,795	1,134,655
Debt Service:						
Bond Issue Costs .....	-	-	-	28,783	-	28,783
Principal .....	-	-	-	1,369,871	-	1,369,871
Interest and Other Charges .....	-	-	-	1,026,038	-	1,026,038
<b>Total Expenditures .....</b>	<b>11,955,968</b>	<b>140,735</b>	<b>937,107</b>	<b>2,424,692</b>	<b>7,896,027</b>	<b>23,354,529</b>
<b>OTHER FINANCIAL SOURCES (USES)</b>						
Proceed of Note .....	-	6,000,000	-	-	-	6,000,000
Operating Transfer In .....	153,744	-	-	827,302	346,632	1,327,678
Operating Transfer Out .....	(1,022,847)	(151,087)	-	-	(153,744)	(1,327,678)
<b>Total Other Financing Sources and Uses .....</b>	<b>( 869,103)</b>	<b>5,848,913</b>	<b>-</b>	<b>827,302</b>	<b>192,888</b>	<b>6,000,000</b>
Net Change in Fund Balances .....	875,635	5,914,174	-	117,821	(477,639)	6,429,991
Fund Balance (Deficit), as Restated, at Beginning of Year	( 224,018)	-	-	1,192,385	2,230,893	3,199,260
<b>FUND BALANCES – ENDING .....</b>	<b>\$ 651,617</b>	<b>\$ 5,914,174</b>	<b>\$ -</b>	<b>\$ 1,310,206</b>	<b>\$ 1,753,254</b>	<b>\$ 9,629,251</b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net Change in Fund Balances – Government Funds (Page 21) ..... \$ 6,429,991

Amount reported for Governmental Activities in the Statement of Activities (Page 17)  
are different because:

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

Capital Assets .....	\$1,134,655	
Depreciation Expense .....	<u>(887,933)</u>	
Excess of Capital Assets over Depreciation Expense .....		246,722

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

Property Taxes .....	133,602	
Christmas Bonus .....	5,309	
Child Care .....	(76,500)	
CDBG .....	<u>(31,157)</u>	
Total of Revenues .....		31,254

Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase  
Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was ..... (6,000,000)

Repayment of Long-Term principal is expenditure in the governmental funds, but issuing debt  
increase Long-Term Liabilities in the Statement of Net Assets. In the current period repayments were ..... 1,369,871

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:

Increase in Bond Issue Costs .....	23,623	
Decrease in Solid Waste Disposal .....	72,000	
Decrease in Christmas Bonus .....	(10,619)	
Increase in Compensated Absences .....	<u>(100,454)</u>	
Total Additional Expenditures .....		<u>(15,450)</u>

Change in Net Assets of Governmental Activities (Page 17) ..... \$ 2,062,388

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of San Lorenzo, Puerto Rico (Municipality)** was founded in the year 1811, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

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

**A. Financial Reporting Entity**

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continuation)

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

**B. Financial Statement Presentation**

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

**Government-wide Financial Statements**

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

Business-type activities, which rely to a significant extent on fees and charges for support, are not reported since the **Municipality** don't have such activities.

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continuation)

**B. Financial Statement Presentation** (continuation)

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

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

**Governmental Fund Financial Statements**

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

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

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

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

**Required Supplementary Information**

Required supplementary information consists of the Management Discussion and Analysis – a narrative introduction and analytical overview of the Municipality's financial activities. Also consists of the Budgetary Comparison Schedule – General Fund (see Section D of Note 1) as required by GASB.

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

**Government-wide Financial Statements**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continuation)

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

**Governmental Fund Financial Statements**

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

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

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

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

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

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

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

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

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

**Activities Center** – This is used to account for the construction of the Activities Center in San Lorenzo, Puerto Rico.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continuation)

**D. Budgetary Data**

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

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continuation)

**E. Cash and Investment**

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 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.

**F. Receivables and Payables**

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

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

**G. Inventories**

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

**H. Capital Assets**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**H. Capital Assets (continuation)**

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

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

CAPITAL ASSETS	YEARS
Buildings and Site Improvements	40
Infrastructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	3-5

**I. Compensated Absences**

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continuation)

**J. Insurance**

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

**K. Interfund Transactions**

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

*Interfund Transfers* – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

**L. Reservations of Fund Balance – Governmental Funds**

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

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

**M. Claims and Judgments**

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

**N. Use of Estimates**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 2 CASH AND INVESTMENTS**

Investments consist of certificates of deposit. The Municipality's cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

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

During the year, the Municipality invested its funds in short-term certificates of deposit. As June 30, 2007 the market value of investments approximated its carrying value as follow:

CERTIFICATE OF DEPOSIT ISSUED BY	NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Oriental Bank of Puerto Rico.....	0131016622	<u>\$5,853,336</u>	4.20 – 5.30%	07-30-07

This investment is for the Activities Center Funds.

**NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS**

As of June 30, 2007, the Municipality's custodial credit risk was approximately \$2.8 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

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

**NOTE 4 DUE FROM GOVERNMENTAL UNITS**

As of June 30, 2007, the amount of \$222,127 corresponds from Municipal Revenue Collection Center.

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

	UNAVAILABLE	UNEARNED
Volume of Business Taxes.....	\$ -	\$1,986,500
SBGP .....	960,127	-
Intergovernmental .....	<u>222,127</u>	-
Total Deferred/Unearned Revenue .....	<u>\$1,182,254</u>	<u>\$1,986,500</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 5 INTERFUND TRANSFER AND BALANCES**

**A. INTERFUND TRANSFERS**

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

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$ 676,214	Debt payment
General Fund	Other Fund	346,632	Specific project funding
Other Fund	General Fund	153,744	Specific project funding
Activities Center	Debt Service Fund	<u>151,088</u>	Debt payment
	Total	<u>\$1,327,678</u>	

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

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

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Major Fund	\$1,209,645
Other Major Fund	SBGP Fund	462,790
General Fund	SBGP Fund	46,929
General Fund	Debt Service Fund	<u>17,140</u>
TOTAL		<u>\$1,736,504</u>

**NOTE 6 DUE TO GOVERNMENTAL UNITS**

As of June 30, 2007, balance due to governmental units of the General Fund for services rendered to the Municipality consists of AEELA (\$5,279); General Service Administration (\$2,840); and \$41,973 due to other municipalities for portability.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 7 CAPITAL ASSETS**

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

DESCRIPTION	BALANCE JULY 1, 2006	ADJUSTMENTS	INCREASE	DECREASE	BALANCE JUNE 30, 2007
<b>Non-Depreciable Capital Assets:</b>					
Land .....	\$ 8,153,173	\$ 358,443	\$ -	\$ -	\$ 8,511,616
Construction in Progress .....	<u>1,593,521</u>	<u>395,843</u>	<u>489,658</u>	<u>-</u>	<u>2,479,022</u>
Total Non-Depreciable Capital Assets ....	<u>9,746,694</u>	<u>754,286</u>	<u>489,658</u>	<u>-</u>	<u>10,990,638</u>
<b>Depreciable Capital Assets:</b>					
Buildings .....	14,316,798	1,449,843	-	-	15,766,641
Infrastructure .....	4,205,240	887,034	410,303	-	5,502,577
Machinery and Equipment .....	1,532,525	(18,435)	163,416	-	1,677,506
Motor Vehicles .....	<u>3,227,455</u>	<u>19,446</u>	<u>71,278</u>	<u>-</u>	<u>3,318,179</u>
Total Depreciable Capital Assets .....	<u>23,282,018</u>	<u>2,337,888</u>	<u>644,997</u>	<u>-</u>	<u>26,264,903</u>
<b>Less Accumulated Depreciation:</b>					
Buildings .....	(5,843,523)	2,151,000	(396,521)	-	(4,089,044)
Infrastructure .....	(945,770)	207,097	(175,045)	-	(913,718)
Machinery and Equipment .....	(1,213,481)	(153,052)	(138,115)	-	(1,504,648)
Motor Vehicles .....	<u>(2,701,426)</u>	<u>615,089</u>	<u>(178,252)</u>	<u>-</u>	<u>(2,264,589)</u>
Total Accumulated Depreciation .....	<u>(10,704,200)</u>	<u>2,820,134</u>	<u>(887,933)</u>	<u>-</u>	<u>(8,771,999)</u>
Total Depreciable Capital Assets (Net) ...	<u>12,577,818</u>	<u>5,158,022</u>	<u>(242,936)</u>	<u>-</u>	<u>17,492,904</u>
<b>CAPITAL ASSETS, NET .....</b>	<u><b>\$22,324,512</b></u>	<u><b>\$ 5,912,308</b></u>	<u><b>\$ 246,722</b></u>	<u><b>\$ -</b></u>	<u><b>\$28,483,542</b></u>

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

	AMOUNT
Mayor and Municipal Legislature .....	\$ 372,932
General Government .....	53,276
Public Safety .....	106,552
Public Works .....	221,983
Urban Development .....	53,276
Culture and Recreation .....	71,035
Health and Welfare .....	<u>8,879</u>
Total Depreciation Expenses .....	<u>\$ 887,933</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 8 · GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE**

The principal long-term obligations of the **Municipality** are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the **Municipality**.

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

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$1,525,000, Series 1997, for construction purposes, payable in semi-annual installments ranging from \$20,000 to \$135,000, excluding interests at 8.00% until July 1, 2021 .....	\$ 1,220,000
\$575,000, Series 1996, for construction purposes, payable in semi-annual installments ranging from \$15,000 to \$60,000, excluding interests at 8.00% until July 1, 2015 .....	380,000
\$4,025,000, Series 2003, for construction purposes, payable in semiannual installments ranging from \$140,000 to \$310,000, excluding interests at 5.00%, until July 1, 2027 .....	3,720,000
\$2,015,000, Series 2005, for operational purposes, payable in semiannual installments ranging from \$25,000 to \$115,000, excluding interests from 4.17% to 5.00%, until July 1, 2019 .....	1,830,000
\$1,500,000, Series 2004, for construction purposes, payable in semiannual installments ranging from \$90,000 to \$185,000, excluding interests from 3.27% to 5.00%, until July 1, 2030 .....	1,475,000
\$555,000, Series 2004, for operational purposes, payable in semiannual installments ranging from \$70,000 to \$90,000, excluding interests from 3.27% to 5.00%, until July 1, 2019 .....	<u>415,000</u>
Total General Obligations Bonds .....	<u>9,040,000</u>
<b>Special Obligations Notes:</b>	
\$221,269, Series 1988, for operational purposes, payable in quarterly installments of \$2,766 excluding interests at 5.00%, through July 1, 2007 .....	2,766
\$300,000, Series 1987, for construction purposes, payable in semiannual installments of \$15,000, excluding interest at 9.00%, through July 1, 2007 .....	15,000
\$1,915,000, Series 2004, for operational purposes, payable in semiannual installments ranging from \$55,000 to \$145,000, excluding interests at 6.00%, until July 1, 2024 .....	1,730,000
\$6,000,000, series 2006, for construction purposes, payable in annual installments of \$353,000, excluding variable interest from 4.96% to 5.77%, until August 1, 2026; (paid through CDBG funds) .....	<u>6,000,000</u>
Total Special Obligations Notes .....	<u>7,747,766</u>
<b>Total General and Special Obligations .....</b>	<b><u>\$16,787,766</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 8 GENERAL LONG-TERM DEBTS (continuation)**

The Municipality's general obligations long-term note retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality.

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

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2008	\$ 452,766	\$ 809,037	\$ 1,261,803
2008	465,000	849,655	1,314,655
2010	490,000	826,721	1,316,721
2011	863,000	793,296	1,656,296
2012	898,000	749,177	1,647,177
2013-2017	4,420,000	3,078,824	7,498,824
2018-2022	4,665,000	1,842,344	6,507,344
2023-2027	3,804,000	703,035	4,507,035
2028-2031	<u>730,000</u>	<u>51,706</u>	<u>781,706</u>
<b>TOTAL</b>	<b><u>\$16,787,766</u></b>	<b><u>\$ 9,703,795</u></b>	<b><u>\$26,491,561</u></b>

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007
Property Taxes – MRCC .....	\$ -	\$ -	\$ -	\$ -
Property Taxes – Treasury .....	164,398	-	(32,880)	131,518
Property Taxes – Law 42 .....	633,251	-	(9,880)	623,371
Property Taxes – Law 146 .....	358,206	-	(47,764)	310,442
Christmas Bonus .....	164,820	175,439	(164,820)	175,439
Solid Waste Disposal .....	109,222	-	(72,000)	37,222
LIMS Debt .....	245,996	-	(39,036)	206,960
Compensated Absences .....	<u>1,215,247</u>	<u>100,454</u>	<u>-</u>	<u>1,315,701</u>
<b>TOTAL .....</b>	<b><u>\$ 2,891,140</u></b>	<b><u>\$ 275,893</u></b>	<b><u>(\$ 366,380)</u></b>	<b><u>\$ 2,800,653</u></b>

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

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General .....	\$ 9,570,000	\$ -	(\$ 530,000)	\$ 9,040,000	\$ 370,000	\$ 8,670,000
Special .....	2,088,079	6,000,000	(340,313)	7,747,766	82,766	7,665,000
Others Debts .....	<u>2,891,140</u>	<u>275,893</u>	<u>(366,380)</u>	<u>2,800,653</u>	<u>1,296,362</u>	<u>1,504,291</u>
<b>TOTAL .....</b>	<b><u>\$14,549,219</u></b>	<b><u>\$ 6,275,893</u></b>	<b><u>(\$ 1,236,693)</u></b>	<b><u>\$19,588,419</u></b>	<b><u>\$ 1,749,128</u></b>	<b><u>\$17,839,291</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 DEBT RETIREMENT**

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

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

**NOTE 10 PROPERTY TAXES**

The 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.

As per Ordinance Number 10, Series 2005-2006, enacted on November 16, 2005, the new tax rates per annum are 10.43% for real property and 8.43% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 9.40% and 7.40%, 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 3.40% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 9). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

The **Municipality** 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 due to that is in process of verification by external auditors. As of June 30, 2007, the Debt Service Fund presented a receivable of \$228,075 for the collection of additional property taxes during the next 60 days after end of year.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 11 VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. As per Ordinance Number 11, Series 2005-2006, enacted on November 16, 2005, all taxpayers are required to file their declarations by April 15 of each year and paid the follows tax rates:

- a. For fiscal year 2006-2007 2.50% for financial institutions and savings and loan associations. For fiscal year 2007-2008 the effective tax rate will be 3%.
- b. Other organizations: For fiscal year 2006-2007 – .75%. For fiscal year 2007-2008 – 1%.

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

**NOTE 12 SALES TAXES**

**Municipality** has issued the Ordinance Number 17, Series 2006-2007, establishing a Sales and Use Taxes of 1.5% (1% to the Municipality and .5% to the PR Department of Treasury) effective on January 1<sup>st</sup>, 2007 on all sales of goods and properties and a variety of other transactions. This tax is to be collected by any merchant dedicated to a business which sells or provides any goods or services described as taxable by the Ordinance or any other ruling set forth by the Municipal Legislature.

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

**NOTE 13 CONSTRUCTION TAX**

Construction Tax is recorded in the fiscal year in which payments are due and, accordingly, represents taxes which are due and uncollected at June 30, 2007. The Construction Tax is determined based on the total amount of the construction cost of the project.

Ay construction project, which doesn't qualify for any of the exceptions presented below, will pay a tax of 8% of the total cost amount of the project. The exceptions for the 8% Construction Tax imposed by the **Municipality** are as follow:

- a. Any religious institution (legally registered as such) which operates as a not-for-profit entity, and is affiliated to the councils and associations that group said institutions in Puerto Rico, will be exempted from payment of any construction tax.
- b. When construction is for a residence, made of at least 50% concrete, and said residence is not part of a housing project, urbanization, condominium, or any project of a similar nature (up to a total cost of \$90,000); a 4% rate will be collected up to a maximum total construction cost of \$90,000 (of which the first \$20,000 are exempted). In addition, if the total construction cost is in excess of the \$90,000, an 8% rate will be collected and the \$20,000 exception will not apply.
- c. For any construction not notified to the **Municipality**, and for which no construction tax has been paid, a 10% (annual) fine over the amounts of tax not paid will be imposed.

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 14 INTERGOVERNMENTAL REVENUES**

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

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

**NOTE 15 EMPLOYEE'S RETIREMENT PLAN**

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

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

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

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

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from 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 invest 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 15 EMPLOYEE'S RETIREMENT PLAN (continuation)**

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

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

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

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

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

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

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

Contributions in 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.

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

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2007	<u>\$ 97,187</u>	<u>\$217,303</u>
2006	<u>\$ 97,742</u>	<u>\$211,025</u>
2005	<u>\$112,260</u>	<u>\$197,538</u>
2004	<u>\$103,760</u>	<u>\$109,552</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 15 EMPLOYEE'S RETIREMENT PLAN (continuation)**

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, 2006. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

**NOTE 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.

**B. FEDERAL GRANTS**

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

**NOTE 17 NET ASSETS AND FUND BALANCES RESTATEMENTS**

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

Net Assets, as Previously Reported, At June 30, 2006 .....	\$12,160,353
Adjustment to Capital Assets .....	5,912,308
Adjustment to Revenues – SBGP .....	150,073
Adjustment to Section 8 Revenues .....	<u>(42,445)</u>
Beginning Net Assets, Restated, At July 1, 2006 .....	<u>\$18,180,289</u>

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

	OTHER MAJOR FUND
Fund Balance, as Previously Reported, At June 30, 2006 .....	\$2,273,338
Adjustment to Section 8 Revenues .....	<u>(42,445)</u>
Beginning Fund Balance, as Restated, At July 1, 2006 .....	<u>\$2,230,893</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 18 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT**

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

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

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

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

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

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

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

**END OF NOTES**

**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2007**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	BUDGET AMOUNTS		ACTUAL AMOUNTS (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>BUDGETARY FUND BALANCE, JULY 1, 2006 .....</b>	<b><u>\$ (2,122,958)</u></b>	<b><u>\$ (2,122,958)</u></b>	<b><u>\$ (2,122,958)</u></b>	<b><u>\$ -</u></b>
Resources (Inflows):				
Property Taxes .....	2,858,430	3,025,607	3,039,332	13,725
Volume of Business Taxes .....	1,817,000	1,817,000	2,017,831	200,831
Sales Tax .....	-	448,237	341,316	(106,921)
Intergovernmental Revenues .....	4,935,730	4,935,730	5,078,892	143,162
License and Permits .....	2,517,123	2,517,123	2,231,588	(285,535)
Miscellaneous .....	105,000	193,527	694,733	501,206
<b>Total Resources (Inflows) .....</b>	<b><u>12,233,283</u></b>	<b><u>12,937,224</u></b>	<b><u>13,403,692</u></b>	<b><u>466,468</u></b>
<b>Amounts Available for Appropriation .....</b>	<b><u>10,110,325</u></b>	<b><u>10,814,266</u></b>	<b><u>11,280,734</u></b>	<b><u>466,468</u></b>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature .....	1,250,241	1,294,414	1,231,990	62,424
General Government .....	4,431,104	4,746,979	4,379,479	367,500
Public Safety .....	1,066,507	901,314	1,063,755	(162,441)
Public Works .....	1,768,988	1,889,423	1,956,448	(67,025)
Culture and Recreation .....	651,255	905,743	887,142	18,601
Health and Sanitation .....	662,277	627,319	624,038	3,281
Human Services and Welfare .....	89,207	63,045	60,961	2,084
Solid Waste Disposal .....	1,885,778	1,894,096	1,764,335	129,761
Capital Outlays .....	121,520	343,331	158,860	184,471
Transfer to Other Funds .....	306,406	379,200	403,055	(23,855)
<b>Total Charges to Appropriations .....</b>	<b><u>12,233,283</u></b>	<b><u>13,044,864</u></b>	<b><u>12,530,063</u></b>	<b><u>514,801</u></b>
<b>BUDGETARY FUND BALANCE, JUNE 30, 2007 .....</b>	<b><u>\$ (2,122,958)</u></b>	<b><u>\$ (2,230,598)</u></b>	<b><u>\$ (1,249,329)</u></b>	<b><u>\$ 981,269</u></b>

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**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 (See Page 42) .....	\$11,280,734
Difference – Budget to GAAP:	
Prior-Year Revenue is not inflows of budgetary resources but are revenues for financial reporting purposes .....	297,014
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	<u>2,122,958</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21).....	<u>\$13,700,706</u>
<b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 42) .....	\$12,530,063
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	(709,031)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes .....	537,991
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes .....	<u>(403,055)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21).....	<u>\$11,955,968</u>

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

Budgetary Fund Balance, June 30, 2007 .....	\$(1,249,329)
Timing Differences:	
Non-budgetary Items.....	1,877,417
Change in Encumbrances.....	21,893
Designated for Special Revenue.....	<u>1,636</u>
Unrestricted Fund Balance, June 30, 2007 .....	<u>\$ 651,617</u>

END OF THIS SECTION

**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SINGLE AUDIT SECTION**

**YEAR ENDED JUNE 30, 2007**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	CFDA NUMBER	ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through State – Administration of Families and Children			
Child and Adult Care Food Program .....	10.558	NAV	\$ <u>12,687</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers Program.....	14.871	RQ037VO	516,587
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs			
Community Development Block Grants			
Section 108 Loan Guarantees.....	14.248	N/A	140,735
State Block Grant Program (SBGP).....	14.228	04-AF-FD-58 03-AF-FD-58 02-AF-FD-58 01-FD-FC-58 00-FD-FC-58 98-FD-58 97-FD-58	<u>937,107</u>
Total U.S. Department of Housing and Urban Development....			<u>1,594,429</u>
U.S. Department of Homeland Security:			
Pass-Through State Agency of Emergency Management and Disaster Administration (AEMEAD):			
Emergency Management Performance Grant (EMPG) .....	97.042		8,312
Pass-Through Office of the Governor:			
Public Assistant Grant .....	97.036	FEMA1552DR-PR	<u>37,847</u>
Total U.S. Department of Homeland Security .....			<u>46,159</u>
U. S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant .....	93.575	CC-V02	<u>379,769</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS.....</b>			<b><u>\$2,033,044</u></b>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

---

**NOTE 1 GENERAL**

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 FEDERAL CFDA NUMBER**

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

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

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

**NOTE 5 MAJOR PROGRAMS**

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

END OF NOTES



**ROMAN TORO & CO., PSC**

**Certificate Public Accountants**

Honesty - Integrity - Experience

Members of:  
American Institute of Certified Public Accountants  
and PR Society of Certified Public Accountants

José D. Román Toro, CPA, President

PO Box 3043  
Yauco PR 00698-3043  
Tel. (787) 856-6220  
Fax (787) 856-6233

**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 Members of the  
Municipal Assembly  
Municipality of San Lorenzo, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of San Lorenzo, Puerto Rico**, as of and for the year ended June 30, 2007, which collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements and have issued our report thereon dated December 21, 2007. 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 San Lorenzo, 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 the Municipality of San Lorenzo, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of San Lorenzo, Puerto Rico's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of San Lorenzo, Puerto Rico's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of San Lorenzo, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of San Lorenzo, Puerto Rico's internal control. We consider the deficiencies 2007-1 and 2007-2 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

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

**Compliance and Other Matters**

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

This report is intended solely for the information and use of management, 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., CSP  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
December 21, 2007

Stamp #2263782 was affixed to  
the original of this report



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

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of San Lorenzo, Puerto Rico

**Compliance**

We have audited the compliance of **Municipality of San Lorenzo, Puerto Rico** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality of San Lorenzo, 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 San Lorenzo, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of San Lorenzo, Puerto Rico'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 San Lorenzo, 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 San Lorenzo, Puerto Rico's compliance with those requirements.

In our opinion, Municipality of San Lorenzo, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-4, 2007-5, and 2007-6.

**Internal Control Over Compliance**

The management of Municipality of San Lorenzo, 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 San Lorenzo, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of San Lorenzo, Puerto Rico's internal control over compliance.

**Internal Control Over Compliance, (Continued)**

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-4 and 2007-6 to be significant deficiencies.

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

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

This report is intended solely for the information and use of management, Mayor, 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., CSP  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
December 21, 2007

Stamp #2263783 was affixed to  
the original of this report

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

---

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

**Financial Statements**

Type of auditor's report issued:

- Unqualified Opinion       Qualified Opinion  
 Adverse Opinion       Disclaimer Opinion

Internal control over financial reporting:

- Control deficiency identified?       Yes       None reported
- Significant 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:

- Control deficiency identified?       Yes       None reported
- Significant 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
14.228	State Block Grant Program
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

- Yes       No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007

---

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**2007-1 Deficiencies in internal controls over recording of collections**

Type of finding: Financial statement  
Situation: Significant deficiency  
Federal program: None.  
Compliance requirements: Local regulations  
Prior-year(s) audit finding(s): None.

**Condition:**

The Municipality did not record daily collections in the central accounting system in a reasonable amount of time. Out of 25 randomly selected official receipts, we found 6 collections made by auxiliary officers for a total of \$134,234.19 which were posted in the OCAM system between 7 and 44 days after the collections were made. Additionally, during our review of the Municipality's Section 8 program's cash management of funds, we found that 3 out of the 12 monthly federal subsidy deposits were not identified and recorded in the Municipality's OCAM system until the program's bank account was reconciled more than 1 month after the deposit.

**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.

Chapter III, Section 3, subtitle (3) of the Revised Basic Rules for Municipalities of Puerto Rico as issued by the Office of the Commissioner for Municipal Affairs states that all collections must be recorded and processed through the Municipality's central accounting system, currently the OCAM system.

**Cause:**

The first situation occurred because the Municipality's OCAM collections system suffered an unexpected crash, which took a significant amount of time to correct, and the Municipality did not have alternate mechanisms to record the data in the OCAM system.

The second situation occurred because the Municipality did not maintain proper monitoring of the Section 8 bank account once the Section 8 subsidy deposits are made by the U.S. Treasury through electronic transfers.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007

---

**2007-1 Deficiencies in internal controls over recording of collections, (Continued)**

**Effect:**

The situation increases the risk of loss or misappropriation of cash, an essential asset to the Municipality's operations, because of incomplete financial data. It caused the accounting system of the Municipality to maintain inaccurate information for a prolonged period, which also possibly affected management decisions.

**Recommendation:**

The Municipality should assure that collections are posted as soon as the operational day ends, to ensure that financial information is up-to-date and complete at all times, and to maintain additional mechanisms to substitute the main recording process of collections in OCAM should the latter fail. The Municipality should also properly monitor the bank accounts of programs that routinely receive electronic transfers in order to assure proper recording of revenues.

**2007-2 Deficiencies in internal controls over disbursements**

Type of finding: Financial statement

Situation: Control deficiency

Federal program: None.

Compliance requirements: Local regulations

Prior-year(s) audit finding(s): None.

**Condition:**

During our procedures over expenditures and disbursements, we found that the Municipality disbursed 12 checks for a total of \$452,491.22 to two vendors when the disbursement voucher authorizing the expenditure was not signed and approved by the Municipality's pre-intervention personnel, as required by local regulations.

**Criteria:**

Chapter IV, Section 7 of the Revised Basic Rules for Municipalities of Puerto Rico as issued by the Office of the Commissioner for Municipal Affairs states that the Finance Director must not disburse any checks of municipal funds which have not been reviewed and approved as correct by a pre-intervention employee or supervisor. Article 3.009(s) of Law 81 of August 31, 1991, requires the Mayor of the Municipality to supervise, administer, and authorize all disbursements made through funds of the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007**

---

**2007-2 Deficiencies in internal controls over disbursements, (Continued)**

**Cause:**

This situation occurred because the pre-intervention officer had raised objections in regards to the vendor's compliance with local regulations at the moment of disbursement, however the Municipality disbursed the amounts relying on withholding the final payment of 10% of the contract's sum to oblige contractor compliance. In one case, the 10% retention was paid even though the available documentation did not evidence full compliance with required local regulations.

**Effect:**

Although the disbursement of funds was an allowable and eligible activity under the CDBG program, the Municipality performed a disbursement of funds without the proper authorization from the required personnel, thereby infracting on the norms and procedures established by local laws and regulations.

**Recommendation:**

The Municipality must not disburse any funds, whether federal or local, without the required authorizations and signatures. Even during the course of obtaining an oral authorization, the disbursement is not complete and approved unless all signatures are obtained, and all applicable laws and regulations are met.

**2007-3 Bank account reconciliation**

Type of finding: Financial statement

Situation: Significant deficiency

Federal program: None.

Compliance requirements: Local regulations

Prior-year(s) audit finding(s): None.

**Condition:**

The Municipality did not properly reconcile the general ledger balance of its main operating cash account with the stated bank balance in a reasonable amount of time. The monthly reconciliation of the account for the month of June 2007 is commonly performed between July and August after the receipt of bank statements, however the reconciliation was completed in November 2007, more than 4 months after the fiscal year closing date of June 30, 2007.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007**

---

**2007-3 Bank account reconciliation, (Continued)**

**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, 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 had the task of reconciling the main current bank account assigned to an employee who resigned in June 2007. This position was not filled during the course of the first few months of following fiscal year, due to lack of personnel.

**Effect:**

The reconciliation of the Municipality's main operating bank account was delayed, causing potentially incomplete and unverified financial data during various operating months. It also delayed the Municipality's accounting revisions and year-end reports for the preparation of financial statements.

**Recommendation:**

The Municipality must have its main operating account's general ledger balance reconciled with the bank's stated balance. The Municipality should have available personnel to perform these tasks, and have alternative resources to perform them should any similar situation as the one described above occur.

**END OF SECTION**

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

**2007-4 Deficiencies in internal controls over recording of collections**

Type of finding: Internal controls over major program  
Situation: Significant deficiency  
Federal program: Section 8 Housing Choice Vouchers (CFDA # 14.871)  
Compliance requirements: Cash management (C); local regulations  
Prior-year(s) audit finding(s): None.

N/A

**Condition:**

Our review of the Municipality's Section 8 program's cash management of funds revealed that 3 out of the 12 monthly federal subsidy deposits were not identified and recorded in the Municipality's OCAM system until the program's bank account was reconciled more than 1 month after the deposit. See also finding 2007-1.

**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, 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.

Chapter III, Section 3, subtitle (3) of the Revised Basic Rules for Municipalities of Puerto Rico as issued by the Office of the Commissioner for Municipal Affairs states that all collections must be recorded and processed through the Municipality's central accounting system, currently the OCAM system.

**Cause:**

This situation occurred because the Municipality did not maintain proper monitoring of the Section 8 bank account. See finding 2007-1.

**Effect:**

The situation increases the risk of loss or misappropriation of cash, an essential asset to the Municipality's operations, because of incomplete financial data. It caused the accounting system of the Municipality to maintain inaccurate information for a prolonged period, which also possibly affected management decisions.

**Recommendation:**

The Municipality should assure that financial information is up-to-date and complete at all times, including properly monitor the bank accounts of programs that routinely receive electronic transfers in order to assure proper recording of revenues.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN LORENZO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

---

**2007-5 Deficiencies in internal controls over disbursements**

Type of finding: Internal controls over major program  
Situation: Control deficiency  
Federal program: State Block Grant Program (SBGP) (CFDA No. 14.228)  
Compliance requirements: Allowable Cost/Cost Principles (B); local regulations  
Prior-year(s) audit finding(s): None.

**Condition:**

During our procedures over expenditures and disbursements of the Municipality's State Block Grant Program (SBGP), we found that the Municipality disbursed 12 checks for a total of \$452,491.22 to two vendors when the disbursement voucher authorizing the payment was not signed and approved by the Municipality's pre-intervention personnel as required by local regulations, because of missing documentation required by the construction contract including, but not exclusive to, evidence of prior payment of Municipal construction taxes, certain photographic images of construction progress, evidence of construction notice sign, and missing certification of work performed by independent inspector for certification. See also finding 2007-2.

**Criteria:**

Chapter IV, Section 7 of the Revised Basic Rules for Municipalities of Puerto Rico as issued by the Office of the Commissioner for Municipal Affairs states that the Finance Director must not disburse any checks of municipal funds which have not been reviewed and approved as correct by a pre-intervention employee or supervisor. Article 3.009(s) of Law 81 of August 31, 1991, also known as the Autonomous Municipalities Law, requires the Mayor of the Municipality to supervise, administer, and authorize all disbursements made through funds of the Municipality.

**Cause:**

This situation occurred because the pre-intervention officer had raised objections in regards to the vendor's compliance with local regulations at the moment of disbursement, however the Municipality disbursed the amounts relying on withholding the final payment of 10% of the contract's sum to oblige contractor compliance. In one case, the 10% retention was paid even though the available documentation did not evidence full compliance with required local regulations.

**Effect:**

Although the disbursement of funds was an allowable and eligible activity under the CDBG program, the Municipality performed a disbursement of funds without the proper authorization from the required personnel, thereby infracting on the norms and procedures established by local laws and regulations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007**

---

**2007-5 Deficiencies in internal controls over disbursements, (Continued)**

**Recommendation:**

The Municipality must not disburse any funds, whether federal or local, without the required authorizations and signatures. Even during the course of obtaining an oral authorization, the disbursement is not complete and approved unless all signatures are obtained, and all applicable laws and regulations are met.

**2007-6 Contract provisions in contracts**

Type of finding: Internal controls over major program  
Situation: Significant deficiency  
Federal Program: State Block Grant Program (CFDA 14.228)  
Compliance Requirements: Procurement and Suspension and Debarment  
Prior-Year(s) Audit Finding(s): 2006-III-02

**Condition:**

Out of four construction contracts awarded to contractors through the State Block Grant Program (SBGP), three of the contracts did not include a clause requiring the contractor to retain all required records and documentation for 3 years after the Municipality has made final payment and all other pending matters are closed.

**Criteria:**

24 CFR, Subpart C, Section 85.36 (i)(13) states that a grantee's and sub-grantee's contracts must contain provisions retention of all required records for three years after grantees or sub-grantees make final payments and all other pending matters are closed.

**Cause:**

The Municipality's Office of the Secretary did not have adequate knowledge of the required contract provisions established by federal regulations. Additionally, the Federal Funds Department did not review the final draft of contract clauses before it was signed and awarded.

**Effect:**

Three contracts currently being performed are not in compliance with federal regulations, which may limit the Municipality's recourse in future claims against the contractors in case of noncompliance.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007**

---

**2007-6 Contract provisions in contracts, (Continued)**

**Recommendation:**

The Municipality should instruct its department as to federal program requirements of contract provisions, including departments and offices who do not normally work with federal funds. Additionally, the federal funds department should have the opportunity to review and approve contracts before they are awarded in order to detect and reduce the likelihood of noncompliance.

**END OF SECTION**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

Year	Finding Number	Finding	Number	CFDA Questioned Cost(s)	Comments
------	----------------	---------	--------	-------------------------	----------

(1) Audit Findings that have been fully corrected or not noted during our audit:

2006	2006-III-03	The Municipality did not perform supervisory quality control HQS inspections on two participant's files.	14.871	None.	The Municipality is currently performing periodic quality control inspections on a selected sample of participant files as required by regulations, and maintains a record of such supervisions.
2006	2006-III-04	Municipality did not verify or document if corrections were made at the end of the required correction period for deficiencies found in housing units during HQS inspections.	14.871	None.	The Municipality currently performs secondary inspections to housing units with HQS deficiencies.

(2) Audit Findings not corrected or partially corrected:

2006	2006-III-02	The Municipality did not include the contract clause requiring vendor retention of documents for three years after the final payment of service or purchase in contracts awarded.	14.228	None.	This situation still persists. See finding 2007-4.
------	-------------	---	--------	-------	--

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

NONE.

(4) Audit findings are no longer valid:

2006	2006-III-01	The Municipality exceeded the limits on administrative costs per contracts with the state grantor in program years 98 through 01 and 03.	14.228	None.	The Municipality has provided evidence that administrative costs have not exceeded the contracted limits for open fiscal years.
------	-------------	--	--------	-------	---

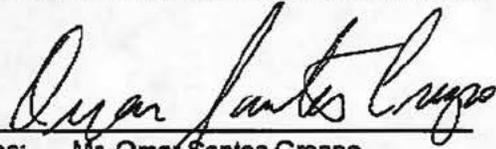
END OF SCHEDULE

MUNICIPALITY OF SAN LORENZO  
San Lorenzo, Puerto Rico

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

ERROR NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT COMMENTS	CORRECTIVE ACTION PLAN	COMPLETION DATE
2007-5	Cruz Crespo		As discussed with Mr. Crespo in a meeting celebrated in January 2008, from this date on, as soon as he notices that any evidence is missing he will immediately notify it to the Federal Programs Director so that Mr. Crespo may obtain the missing document and this way he can proceed to sign and approve the disbursement voucher.	January 2008
2007-6	Tania Rodríguez		As discussed with Mrs. Rodríguez in meeting celebrated in January 2008, from this date on, the retention provision will be included in every grantee or sub-grantee contract.	January 2008

The information stated above has been determined to be accurate based upon information available as of January 25, 2008.



Name: Mr. Omar Santos Crespo  
Position: Federal Programs Director  
Date: February 27, 2008