

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

MUNICIPIO DE SAN LORENZO
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008



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MUNICIPALITY OF SAN LORENZO, PUERTO RICO
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008



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MUNICIPALITY OF SAN LORENZO, PUERTO RICO

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

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ROMAN TORO & CO., PSC

Certificate Public Accountants

Honesty - Integrity - Experience

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American Institute of Certified Public Accountants
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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, 2008, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

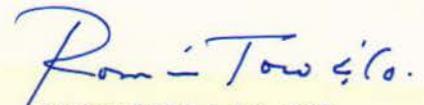
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Lorenzo, Puerto Rico, as of June 30, 2008, and 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 January 9, 2009, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 47 through 48, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Municipality of San Lorenzo, Puerto Rico. The financial schedule data and 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
January 9, 2009

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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, 2008

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, 2008. 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 2008 by \$18,799,417 (net assets).
- Revenues decreased by \$4,448,820 (18.4%) and expenses decreased by \$153,725 (.7%) in comparison with year 2007, as restated.
- Net change in net assets amounted to (\$1,836,799), a decrease of 174.7% with respect to prior year (2007) 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 \$7,177,832, a decrease of \$2,451,423 in comparison with the prior year.
- The General Fund reported an excess of expenditures and other financing uses over revenues of \$1,802,436 and an unreserved (deficit) fund balance of (\$1,826,787). Unreserved (deficit) fund balances increased by \$1,769,373 from prior year.

General Financial Highlights

- The investment in net capital assets as of June 30, 2008 was \$19,524,319 (net of related debt).
- Long term debt general and special obligation bonds increased to \$18,625,000, approximately 10.9% with respect to prior year balance for the issuance of general and special bonds for \$2,290,000 for the construction of the Activities Center Building and other projects.
- Other long term debts increases and net reductions from payments amounted to \$267,592 and \$309,852, respectively.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$1,743,772.
- Revenues decrease was mainly in sales taxes of \$2,694,106, over increase on property taxes (\$104,889), intergovernmental revenues (\$195,366), license and permits (\$195,640), and miscellaneous (\$289,836).

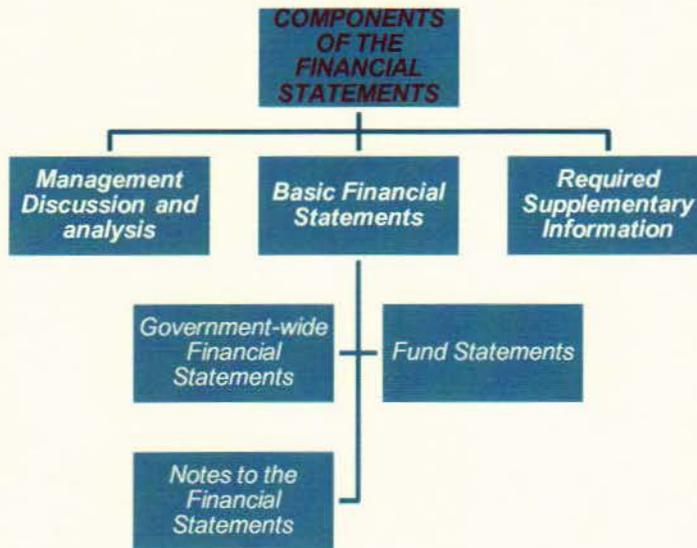
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008

◆ **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, 2008

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, 2008 and 2007:

Tabla 1		
Commonwealth of Puerto Rico		
Municipality of San Lorenzo, Puerto Rico		
Statement of Net Assets		
As of June 30,		
	2008	2007
Current and Non-Current Assets	\$ 12,491,733	\$ 14,020,513
Capital Assets	31,560,541	28,539,007
Total Assets	44,052,274	42,559,520
Current Liabilities	1,501,156	686,459
Deferred Revenues	2,326,470	1,590,592
Long-Term Liabilities	21,425,231	19,646,257
Total Liabilities	25,252,857	21,923,308
Net Assets:		
Investment in Capital Assets, Net of		
Related Debt (as Restated)	19,524,319	20,721,195
Restricted	2,964,816	3,089,343
Unrestricted (Deficit) (as Restated)	(3,689,718)	(3,174,326)
Total Net Assets	\$ 18,799,417	\$ 20,636,212

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 11.83% with respect to prior year as restated. The most significant changes were an increase in unrestricted assets (deficit) of \$515,392 and an increase of capital assets of \$3,021,534 by the construction in progress of various projects and the acquisition of machinery, equipment and motor vehicles.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$19,524,319; total capital assets (\$37,874,457) less accumulated depreciation (\$9,313,916) and less any related outstanding debt (\$12,036,222) 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 constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2008 the Municipality presented unrestricted (deficit) net assets of (\$3,689,718). This balance was affected by long term obligations such as compensated absences \$1,387,083 and other debts for the amount of \$1,371,310 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, 2008

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2008 and 2007:

Tabla 2		
Commonwealth of Puerto Rico		
Municipality of San Lorenzo, Puerto Rico		
Changes in Net Assets		
For Fiscal Years Ending June 30,		
	2008	2007
Revenues:		
Program Revenues:		
Changes for Services	\$ 38,400	\$ 2,200
Operating Grants and Contributions	2,842,390	877,912
Capital Grants and Contributions	1,546,696	7,778,942
General Revenues:		
Property Taxes	4,144,930	5,185,157
Volume of Business Taxes	2,329,455	2,017,831
Construction Taxes	1,196,640	2,231,588
Sales Taxes	1,114,630	341,316
Intergovernmental	6,098,383	5,084,201
Other General Revenues	451,336	692,533
Total Revenues	<u>19,762,860</u>	<u>24,211,680</u>
Expenses:		
General Administration	8,186,057	9,404,211
Public Safety	1,443,744	931,434
Public Works	5,110,067	4,924,550
Culture and Recreation	1,184,415	770,101
Health and Sanitation	628,992	637,459
Solid Wasted Disposal	2,104,349	1,764,335
Human Services and Welfare	1,080,960	1,047,600
Urban Development	882,147	1,247,656
Loss on Disposition of Assets	15,308	-
Interest Costs	963,620	1,026,038
Total Expenses	<u>21,599,659</u>	<u>21,753,384</u>
Changes in Net Assets	(1,836,799)	2,458,296
Net Assets-Beginning, as Restated	<u>20,636,216</u>	<u>18,177,920</u>
Net Assets-Ending	<u>\$ 18,799,417</u>	<u>\$ 20,636,216</u>

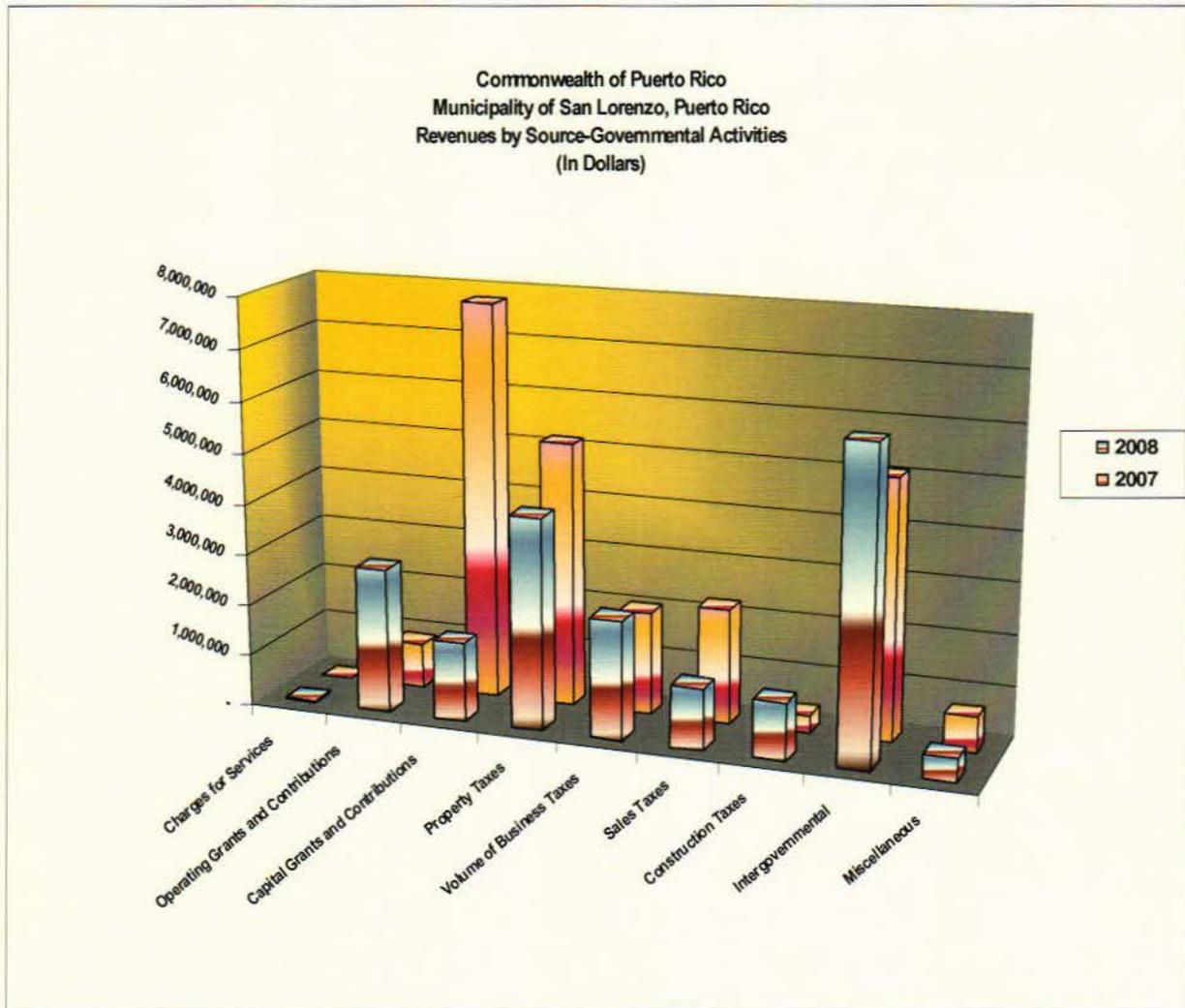
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

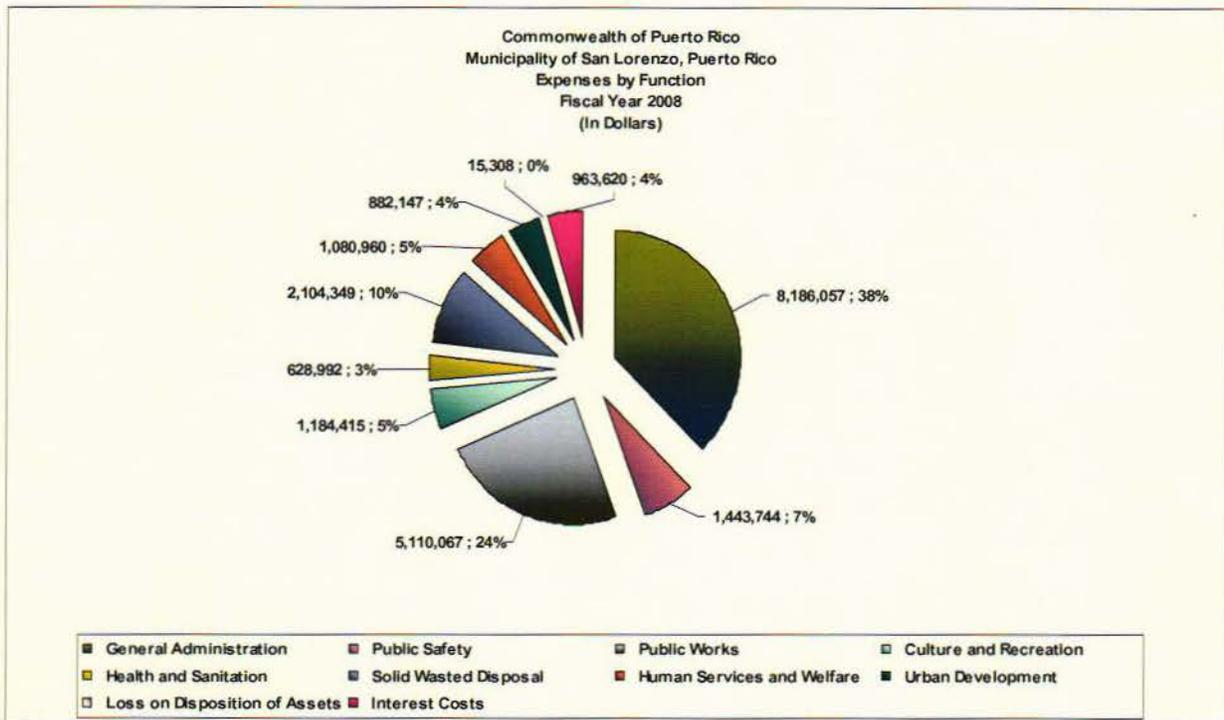
FIGURE 1



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2007-2008:

FIGURE 2



Approximately 30.9% of the Municipality's revenues came from intergovernmental, 21% from property taxes, 22.2% from grants and contributions, and 25.9% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 37.9%, public works with 23.7%, solid waste disposal with 9.7% and public safety with 6.7%. Program revenues of the Municipality covered 20.5% of total expenses.

With respect to prior year, revenues decreased by approximately \$4.4 million or 18.4%, principally on capital grants and contributions.

Expenses decreased .7% or \$153,725 in comparison with 2007 year. Significant increases were registered on culture and recreation, public safety, and solid wasted disposal 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, 2008

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):

Tabla 3				
Commonwealth of Puerto Rico				
Municipality of San Lorenzo, Puerto Rico				
Net Cost of Municipality's Governmental Activities				
For Fiscal Years Ended June 30,				
	Total Cost of Services		Net Cost of Services	
Functions/Programs	2008	2007	2008	2007
General Administration	\$ 8,186,057	\$ 9,404,211	\$ 6,521,830	\$ 8,688,304
Public Safety	1,443,744	931,434	954,296	923,311
Public Works	5,110,067	4,924,550	5,064,660	983,012
Culture and Recreation	1,184,415	770,101	1,184,415	770,101
Solid Waste Disposal	2,104,349	1,764,335	2,104,349	1,764,335
Human Services and Welfare	1,080,960	1,047,600	16,738	(1,989)
Urban Development	882,147	1,247,656	(275,098)	(1,688,385)
Others	1,607,920	1,663,497	1,600,983	1,655,641
Total	\$ 21,599,659	\$ 21,753,384	\$ 17,172,173	\$ 13,094,330

Some of the cost of governmental activities in 2008 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$4,389,086). The \$17,172,173 net cost of services was substantially covered by other general revenues including property, volume of business, sales, and construction 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, 2008, the governmental funds reported combined ending fund balances of \$7,177,832, a net decrease of \$2,451,423 in comparison with the prior year. This decrease was primarily by a net change in the general fund of (\$1,802,436), and a proceeded of bonds of \$2,290,000, and the use of funds of the Activities Center Fund (\$1,584,678). Of total combined fund balances, (\$1,826,787) 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 158.7% of total ending general fund balance.

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

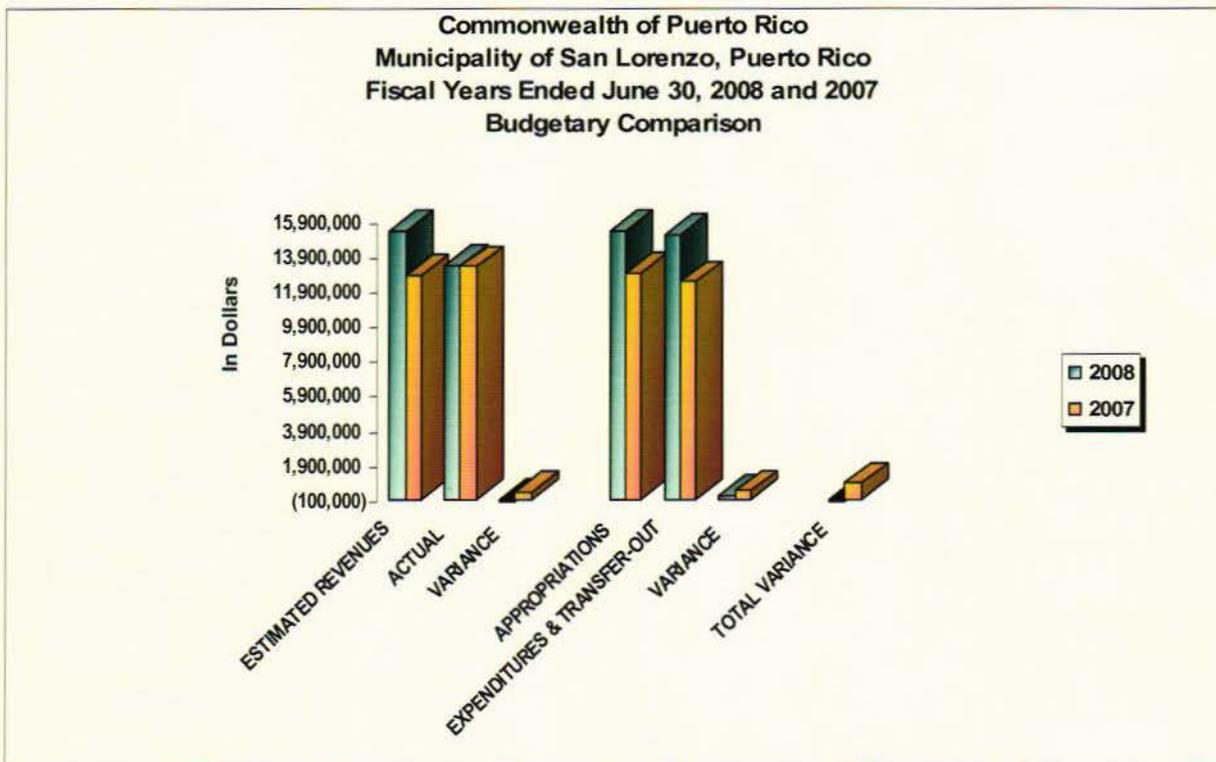
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2007-2008 presented an increase of 19.2% with respect to prior year budget. During the fiscal year budget revenues were decreased by \$316,039 due to a revision of original estimate of property taxes and miscellaneous revenues. The Municipality does not include an amendment to the budget the positive and negative changes on others revenues, principally in sales taxes (\$2,694,106). Budget expenditures were amended during the year in accordance with functions estimates (see **Figure 3** below).

FIGURE 3



The negative variance of \$1,743,772 between revised budget and actual results was due mainly to decrease in revenues as explain in the preceding paragraph, 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, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$31,560,541 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, infrastructure, construction in progress and equipment. This amount represents a net increase of \$3,021,534 or 10.6% from the prior year, as restated.

Tabla 4		
Commonwealth of Puerto Rico		
Municipality of San Lorenzo, Puerto Rico		
Capital Assets, net		
As of June 30,		
	Governmental Activities	
	(As restated)	
	2008	2007
Non-depreciable assets:		
Land	\$ 9,770,216	\$ 8,511,616
Construction in Progress	3,762,179	2,479,022
Depreciable assets:		
Buildings	11,816,533	11,677,597
Infrastructure	4,499,494	4,588,859
Machinery and Equipment	350,637	172,858
Capital Lease	41,647	55,465
Motor Vehicles	1,319,835	1,053,590
Total	\$ 31,560,541	\$ 28,539,007

The Municipality invested a total of \$3,944,829 of capital assets during the fiscal year 2007-2008 as follows:

- Construction in Progress – \$1,856,683
- Acquisition of Land – \$1,258,600
- Acquisition of Machinery and Equipment – \$330,282
- Acquisition of Motor Vehicles – \$499,264

Also, building (\$525,730) and infrastructure (\$47,796) were finished and put in operation during the year, and motor vehicles were eliminated (\$395,196) with a net loss on disposal of \$15,308. A restatement of \$55,465 was made to capital assets. Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2008.

Construction in progress was principally for improvement to recreational facilities and sidewalk.

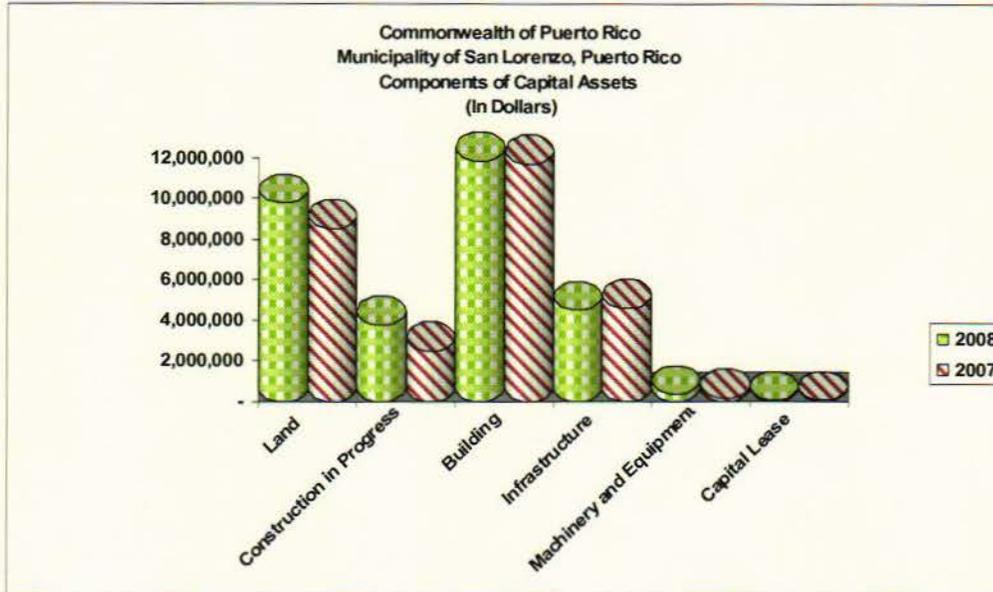
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Figures 4 below present the components of capital assets during the fiscal years 2008 and 2007:

FIGURE 4



Long term debt

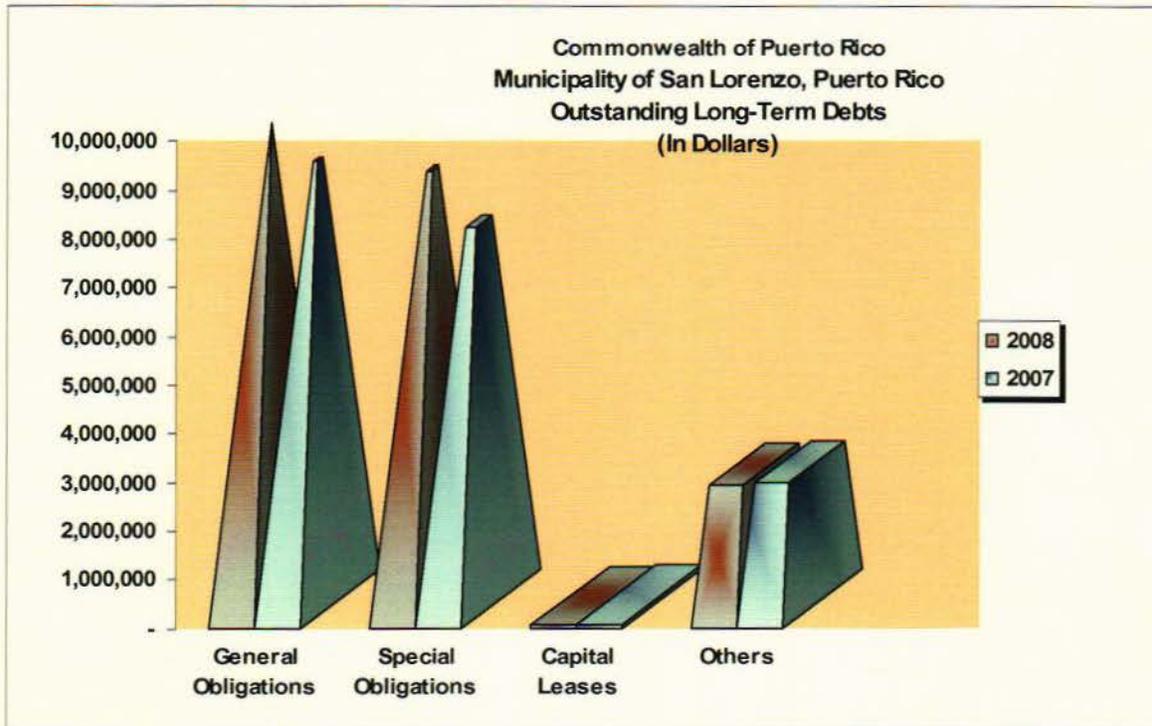
At year-end, the Municipality had \$18,625,000 in general and special obligations, an increase of 10.9% with respect to prior year due to the issuance of \$2.3 million of general and special obligation. The following is a summary of the Municipality's outstanding debt as of June 30, 2008 and 2007:

	Governmental Activities	
	2008	2007
General and Special Obligations	\$ 18,625,000	\$ 16,787,766
Capital Lease	41,838	57,838
Property Taxes-Treasury Dept	98,638	131,518
Law No. 42-MRCC	612,870	623,371
Law No. 146-MRCC	298,024	310,442
LIMS - MRCC	165,568	206,960
Christmas Bonus	196,210	175,439
Solid Waste Disposal	-	37,222
Compensated Absences	1,387,083	1,315,701
Total	\$ 21,425,231	\$ 19,646,257

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Figure 5 present the components of long-term debts during the fiscal year 2008 and 2007:

FIGURE 5



More detailed information about the Municipality's long term liabilities is presented in Note 9 and 10 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 2007-2008 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 14.7%, 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 \$14.3 million, approximately \$1.1 million less than the fiscal year 2007. The Municipality expects a reduction of revenues due to the economic recession. 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, 2008

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, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments	\$ 5,239,790
Cash with Fiscal Agent	5,253,000
Receivables (net):	
Property Taxes	24,410
Sales Taxes	92,886
Due from Governmental Units	1,012,354
Federal Grants	797,008
Others	446
Deferred Charges	71,839
Capital Assets:	
Land, Improvement and Construction in Progress	13,532,395
Other Capital Assets [Net of Depreciation]	18,028,146
Total Capital Assets	31,560,541
TOTAL ASSETS	<u>44,052,274</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	1,176,273
Accrued Interest	237,207
Due to Governmental Units	87,676
Deferred Revenues	2,326,470
Long-Term Liabilities:	
Due Within One Year	1,967,807
Due in More than One Year	19,457,424
TOTAL LIABILITIES	<u>25,252,857</u>
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt	19,524,319
Restricted for:	
Capital Projects	256,586
Debt Service	2,476,552
Community Development Projects	231,678
Unrestricted (Deficit)	<u>(3,689,718)</u>
TOTAL NET ASSETS	<u>\$ 18,799,417</u>

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, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues (See Next Page)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,261,160	\$ -	\$ -	\$ -	\$ (1,261,160)
General Government	6,924,897	38,400	1,625,827	-	(5,260,670)
Public Safety	1,443,744	-	38,670	450,778	(954,296)
Public Works	5,110,067	-	45,407	-	(5,064,660)
Culture and Recreation	1,184,415	-	-	-	(1,184,415)
Health and Sanitation	628,992	-	-	6,937	(622,055)
Solid Waste Disposal	2,104,349	-	-	-	(2,104,349)
Human Services and Welfare	1,080,960	-	886,661	177,561	(16,738)
Urban Development	882,147	-	245,825	911,420	275,098
Loss on Disposition of Assets	15,308	-	-	-	(15,308)
Interest on Long-Term Debt	963,620	-	-	-	(963,620)
Total Governmental Activities	21,599,659	38,400	2,842,390	1,546,696	(17,172,173)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					2,538,433
Property Taxes, levied for Debt Service					1,606,497
Volume of Business Taxes					2,329,455
Sales Taxes					1,114,630
Construction Taxes					1,196,640
Intergovernmental					6,098,383
Miscellaneous					451,336
Total General Revenues					15,335,374
CHANGES IN NET ASSETS					(1,836,799)
Net Assets – Beginning of Year, As Restated					20,636,216
NET ASSETS – ENDING OF YEAR					\$ 18,799,417

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	GENERAL FUND	ACTIVITIES CENTER FUND	SBGP FUNDS	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash and Investment	\$ 70,259	\$ 4,337,232	\$ 21	\$ -	\$ 832,278	\$ 5,239,790
Cash with Fiscal Agent	162,879	-	-	2,672,784	2,417,337	5,253,000
Receivables:						
Property Taxes	-	-	-	24,410	-	24,410
Sales Tax	92,886	-	-	-	-	92,886
Federal Grants	-	-	792,493	-	4,515	797,008
Due from Other Funds	2,157,081	-	-	-	460,353	2,617,434
Due from Governmental Units	592,758	-	-	-	419,596	1,012,354
Other Receivables	-	-	-	-	446	446
Total Assets	\$ 3,075,863	\$ 4,337,232	\$ 792,514	\$ 2,697,194	\$ 4,134,525	\$ 15,037,328
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Account Payable	\$ 944,265	\$ 7,736	\$ 121,741	\$ -	\$ 102,531	\$ 1,176,273
Bonds Payable	-	-	-	590,000	-	590,000
Account Interest	-	-	-	237,207	-	237,207
Due to Governmental Units	87,676	-	-	-	-	87,676
Due to Other Funds	275,513	-	439,095	-	1,902,826	2,617,434
Deferred Revenues:						
Volume of Business Tax	2,326,470	-	-	-	-	2,326,470
Governmental Units	592,758	-	-	-	-	592,758
Federal Grants	-	-	231,678	-	-	231,678
Total Liabilities	4,226,682	7,736	792,514	827,207	2,005,357	7,859,496
Fund Balances:						
Reserve For:						
Encumbrances	675,968	-	-	-	-	675,968
Debt Service	-	-	-	1,869,987	-	1,869,987
Other Purposes	-	4,329,496	-	-	2,129,168	6,458,664
Unreserved (Deficit)	(1,826,787)	-	-	-	-	(1,826,787)
Total Fund Balances	(1,150,819)	4,329,496	-	1,869,987	2,129,168	7,177,832
Total Liabilities and Fund Balances	\$ 3,075,863	\$ 4,337,232	\$ 792,514	\$ 2,697,194	\$ 4,134,525	\$ 15,037,328

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, 2008

Total Fund Balances – Government Funds (Page 18) **\$ 7,177,832**

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	\$ 13,532,395	
Depreciable Capital Assets	21,791,689	
Infrastructure Assets	5,550,373	
Accumulated Depreciation	<u>(9,313,916)</u>	
Total Capital Assets		31,560,541

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

Deferred Charges		71,839
------------------	--	--------

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	231,678	
Intergovernmental	98,105	
Christmas Bonus	-	
Reimbursement	494,653	
Property Taxes	-	<u>824,436</u>

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

General Special Obligation Bonds	(18,035,000)	
Capital Lease	(41,838)	
Christmas Bonus	(196,210)	
LIMS - MRCC	(165,568)	
Compensated Absences	(1,387,083)	
Law Number 146 - MRCC	(298,024)	
Law Number 42 - MRCC	(612,870)	
PR Treasury Department	<u>(98,638)</u>	
Total Long-Term Liabilities		<u>(20,835,231)</u>

Total Net Assets of Governmental Activities (Page 16) **\$ 18,799,417**

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, 2008

	GENERAL FUND	ACTIVITIES CENTER FUND	SBGP FUNDS	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	\$ 2,538,433	\$ -	\$ -	\$ 1,606,497	\$ -	\$ 4,144,930
Volume of Business Taxes	2,329,455	-	-	-	-	2,329,455
Sales Taxes	1,114,630	-	-	-	-	1,114,630
Federal Assistancess	-	187,197	2,215,002	-	970,738	3,372,937
Intergovernmental	5,815,471	-	-	-	2,140,506	7,955,977
Licenses and Permits	1,196,640	-	-	-	-	1,196,640
Miscellaneous	451,336	-	-	-	38,400	489,736
Total Revenues	13,445,965	187,197	2,215,002	1,606,497	3,149,644	20,604,305
EXPENDITURES:						
Current						
Mayor and Municipal Legislature	1,341,646	-	-	-	-	1,341,646
General Government	5,712,243	-	-	-	1,333,173	7,045,416
Public Safety	947,439	-	-	-	303,509	1,250,948
Public Works	2,662,902	-	-	-	698,079	3,360,981
Culture and Recreation	1,093,395	-	-	-	-	1,093,395
Health and Sanitation	628,992	-	-	-	-	628,992
Solid Waste Disposal	2,104,349	-	-	-	-	2,104,349
Human Services and Welfare	58,605	-	-	-	983,214	1,041,819
Urban Development	-	-	1,502,666	-	282,311	1,784,977
Capital Outlay	308,507	1,450,401	712,336	-	1,473,585	3,944,829
Debt Service:						
Bond Issue Cost	-	-	-	16,565	-	16,565
Principal	-	-	-	768,191	-	768,191
Interest and Other Charges	-	-	-	963,620	-	963,620
Total Expenditures	14,858,078	1,450,401	2,215,002	1,748,376	5,073,871	25,345,728
Excess of Revenues Over (Under) Expenditures	(1,412,113)	(1,263,204)	-	(141,879)	(1,924,227)	(4,741,423)
OTHER FINANCING SOURCES (USES):						
Proceed of Note	-	-	-	-	2,290,000	2,290,000
Transfer - In	61,042	-	-	701,660	87,744	850,446
Transfer - Out	(451,365)	(321,474)	-	-	(77,607)	(850,446)
Total Other Financing Sources and Uses	(390,323)	(321,474)	-	701,660	2,300,137	2,290,000
Net Change in Fund Balance	(1,802,436)	(1,584,678)	-	559,781	375,910	(2,451,423)
Fund Balance - Beginning	651,617	5,914,174	-	1,310,206	1,753,258	9,629,255
FUND BALANCE - ENDING	\$ (1,150,819)	\$ 4,329,496	\$ -	\$ 1,869,987	\$ 2,129,168	\$ 7,177,832

See accompanying Notes to Basic Financial Statements.

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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, 2008

Net Change in Fund Balances – Government Funds (Page 20) \$ (2,451,423)

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	\$ 3,944,829	
Depreciation Expense	(907,987)	
Excess of Capital Assets over Depreciation Expense		3,036,842

Governmental funds only report the proceeds received in the disposal of assets. In the
Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in
net assets differs from the change in fund balance by the cost of the disposed asset (15,308)

Governmental Fund Report the effect of Bond Issuance Costs as Expenditure when Debt is first
issued, and amortized in the Statement of Activities. This amounts is the effect of these differences:

Bond Issuance Costs	16,565	
Amortization of Deferred Charges	(23,056)	(6,491)

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

Property Taxes	272,526	
Christmas Bonus	10,386	
Community Development Block Grant	(1,124,357)	
Total of Revenues		(841,445)

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 (2,290,000)

Repayment of long-term principal is expenditure in the governmental funds, but issuing debt
reduced Long-Term Liabilities in the Statement of Net Assets. In the current period
repayments were 823,179

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 Christmas Bonus	(20,771)	
Increase in Compensated Absences	(71,382)	
Total Additional Expenses		(92,153)

Change in Net Assets of Governmental Activities (Page 17) \$ (1,836,799)

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, 2008

NOTE 1 FINANCIAL REPORTING ENTITY

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. As a government entity, the Municipality is exempt from both federal and state taxes.

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.

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*.

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

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

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

These financial statements present the respective financial position of the governmental and business type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARIES OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund 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 financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the Municipality's governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Assets* presents the reporting entities' assets and liabilities, with the difference reported as net assets.

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*) 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements 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. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements

The governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The Municipality reports the following major governmental funds:

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

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 Fund – 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the governmental-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board*.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts 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.

Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

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

Final Budget

The final budgetary data presented in the Budgetary Comparison – General Fund Schedule reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

D. Cash and Investment, and Cash with Fiscal Agent

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

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico. 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.

E. 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".

Receivable are shown net of an allowances for uncollectible, which are determined upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Commonwealth of Puerto Rico, from grant and contributions from Federal Government, and state appropriations.

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

F. Inventories

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

G. Capital Assets

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

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

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the governmental-wide financial statements to the extent the Municipality capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset acquired under capital leases is included in depreciation. 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
Infraestructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	3-5

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

H. Compensated Absences

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. 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 9 on page 37).

I. Risk Financing

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2008 amounted to approximately \$233,149. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$144,231 for workers compensation insurance covering all municipal employees for the same period.

J. Long-Term Obligations, Bonds Issuance Costs, Premiums and Discounts

The liabilities reported in the government-wide financial statements include the general and special obligation bonds, long-term notes, other long-term liabilities (e.g., vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties, and landfill postclosure care costs. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

K. Fund Equity/Net Assets

Reservations of Fund Equity

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. Following is a brief description of the nature of certain reserves.

- *Reserve for Encumbrances* – Encumbrances are recorded as reservations of fund balances because they do not constitute expenditures or liabilities. In certain other governmental funds, this accounting treatment results in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year where it is applied against estimated revenues in the year the commitments are expended.
- *Reserve for Debt Service* – The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent years.
- *Reserve for Capital Projects* – Certain assets, primarily cash and investments, and cash with fiscal agent to be invested in capital projects.
- *Reserve for Other Purposes* – Certain assets, primarily cash and investments of grants and contributions that are authorized to be carried over and expended in the ensuing year.

Restricted Net Assets

The governmental-wide and proprietary funds financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – These consists of capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and amortization, and the outstanding balances for debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *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, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

L. Interfund Transactions

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

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

Intra-Entity Transactions – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

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.

O. Future Adoption of Accounting Pronouncements

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

GASB Statement No. 49, *Pollution Remediation*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes *pollution prevention or control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. This Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

GASB Statement No. 51, *Intangible Assets*. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This Statement is effective for financial statements for periods beginning after June 15, 2008.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

NOTE 3 CASH AND CASH WITH FISCAL AGENT

Certificate of Deposits

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 \$250,000 in each bank, and the excess by collateral provided by the banks and held by the Puerto Rico Treasury Department 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 CASH AND CASH WITH FISCAL AGENT (continuation)

During the year, the Municipality invested its funds in short-term certificates of deposit. As June 30, 2008 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	3101848885	\$ 4,281,433	2.50%	07/24/08

Custodial Credit Risk Related to Deposits

Custodial credit risk for cash and investments is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the 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.

The Municipality maintains its cash deposits in commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. The following tables presented below discloses the level of custody risk assumed by the Municipality based upon how its deposits were insured or secured with collateral at June 30, 2008:

	CATEGORY			CARRYING AMOUNT	BANK BALANCE
	1	2	3		
Deposit in					
Commercial Banks	\$ 5,239,790	\$ -	\$ -	\$ 5,239,790	\$ 5,709,849
Deposit in					
Governmental Bank	-	-	5,253,000	5,253,000	5,541,804
Total	\$ 5,239,790	\$ -	\$ 5,253,000	\$ 10,492,790	\$ 11,251,653
Reconciliation to Government-Wide Statement of Net Assets:					
	UNRESTRICTED	RESTRICTED	TOTAL		
Carrying amount of deposits					
in Commercial Banks	\$ 70,259	\$ 5,169,531	\$ 5,239,790		
Carrying amount of deposit					
in Governmental Bank	-	5,253,000	5,253,000		
Total	\$ 70,259	\$ 10,422,531	\$ 10,492,790		

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 CASH AND CASH WITH FISCAL AGENT (continuation)

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

As of June 30, 2008, the Municipality's custodial credit risk was approximately \$5.25 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.

NOTE 4 DEFERRED REVENUES

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

	UNAVAILABLE	UNEARNED
Volume of Business Taxes	\$ -	\$ 2,326,470
Governmental Units	592,758	-
SBGP	231,678	-
Total Deferred/Unearned Revenue	\$ 824,436	\$ 2,326,470

NOTE 5 DUE FROM GOVERNMENTAL UNITS

As of June 30, 2008, the amount of \$1,012,354 corresponds to the Municipal Revenue Collection Center (\$494,653); and Puerto Rico Treasury Department (\$517,701).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 6 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	\$ 363,621	Bond Principal and Interest Payments
Activities Center	Debt Service Fund	321,474	Bond Principal and Interest Payments
Other Major Fund	Debt Service Fund	16,565	Bond Issue Costs
Other Major Fund	General Fund	61,042	Budget Specific Project Funding
General Fund	Other Major Fund	87,744	Budget Specific Project Funding
	Total	<u>\$ 850,446</u>	

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2008 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Major Fund	\$ 1,902,826
General Fund	SBGP Fund	254,255
Other Major Fund	SBGP Fund	184,840
Other Major Fund	General Fund	<u>275,513</u>
TOTAL		<u>\$2,617,434</u>

NOTE 7 DUE TO GOVERNMENTAL UNITS

As of June 30, 2008, balance due to governmental units of the General Fund for services rendered to the Municipality (\$87,676) consists of AEELA (\$6,395); State Insurance Fund Corporation (\$59,035); Solid Waste Authority (\$12,308); and Water and Sewers Authority (\$9,938).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2008 was as follows:

	BALANCE				BALANCE
	JULY 1,				JUNE 30,
DESCRIPTION	2007	ADJUSTMENTS	INCREASE	DECREASE	2008
Non-Depreciable Capital Assets:					
Land	\$ 8,511,616	\$ -	\$ 1,258,600	\$ -	\$ 9,770,216
Construction in Progress	2,479,022	-	1,856,683	(573,526)	3,762,179
Total Non-Depreciable Capital Assets	10,990,638	-	3,115,283	(573,526)	13,532,395
Depreciable Capital Assets:					
Buildings	15,766,641	-	525,730	-	16,292,371
Infrastructure	5,502,577	-	47,796	-	5,550,373
Machinery and Equipment	1,677,506	-	330,282	-	2,007,788
Capital Lease	-	69,283	-	-	69,283
Motor Vehicles	3,318,179	-	499,264	(395,196)	3,422,247
Total Depreciable Capital Assets	26,264,903	69,283	1,403,072	(395,196)	27,342,062
Less Accumulated Depreciation:					
Buildings	(4,089,044)	-	(386,794)	-	(4,475,838)
Infrastructure	(913,718)	-	(137,161)	-	(1,050,879)
Machinery and Equipment	(1,504,648)	-	(152,503)	-	(1,657,151)
Capital Lease	-	(13,818)	(13,818)	-	(27,636)
Motor Vehicles	(2,264,589)	-	(217,711)	379,888	(2,102,412)
Total Accumulated Depreciation	(8,771,999)	(13,818)	(907,987)	379,888	(9,313,916)
Total Depreciable Capital Assets (Net)	17,492,904	55,465	495,085	(15,308)	18,028,146
CAPITAL ASSETS, NET	\$ 28,483,542	\$ 55,465	\$ 3,610,368	\$ (588,834)	\$ 31,560,541

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

	AMOUNT
Major and Municipal Legislature	\$ 272,397
General Government	54,479
Public Safety	108,958
Public Works	226,997
Urban Development	54,479
Culture and Recreation	72,639
Health and Welfare	118,038
Total Depreciation Expenses	\$ 907,987

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 10).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2008:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
General Obligation Bonds:			
\$1,525,000, Series 1997 - General Construction	2021	8.00%	\$ 1,175,000
\$575,000, Series 1996 - General Construction	2015	8.00%	350,000
\$4,025,000, Series 2003 - General Construction	2027	8.00%	3,630,000
\$2,015,000, Series 2005 - General Construction	2030	3.27% to 5.00%	1,725,000
\$1,500,000, Series 2004 - General Construction	2030	3.27% to 5.00%	1,450,000
\$555,000, Series 2004 - General Construction	2019	3.27% to 5.00%	340,000
\$1,115,000, Series 2007-08 - General Construction	2012	3.93% to 7.50%	1,115,000
Total General Obligations Bonds			<u>9,785,000</u>
Special Obligation Bonds:			
\$1,915,000, Series 2004 - Operation	2024	6.00%	1,665,000
\$6,000,000, Series 2006 - General Construction	2026	4.96% to 5.77%	6,000,000
\$1,175,000, Series 2007-08 - General Construction	2032	5.40% to 7.50%	1,175,000
Total Special Obligations Bonds			<u>8,840,000</u>
Total General and Special Obligation Bonds			<u>\$ 18,625,000</u>

B. Obligation Under Capital Leases

The Municipality is obligated under certain capital leases accounted for in the Statement of Net Assets. The historical cost, accumulated depreciation, future minimum lease payments at June 30, 2008, are as follows:

Cost	\$ 69,283
Accumulated Depreciation	\$ 27,636
Monthly Lease Payments	\$ 1,307
Residual Lease Payments	\$ -
	<u> </u>
YEAR ENDING	TOTAL
JUNE 30,	PAYMENT
2009	\$ 15,686
2010	15,686
2011	<u>14,089</u>
Total Minimum Lease Payment	45,461
Less: Deferred Interest	<u>3,623</u>
Present Value Minimum Lease Payments	<u>\$ 41,838</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 GENERAL LONG-TERM DEBTS (continuation)

C. Other Long-Term Debts

Property Taxes – Treasury Department

This amount represents the excess of advance property taxes over collection previously administered by Puerto Rico Treasury Department. On July 1, 2002, the enacted Law Number 29, authorized that part of the excess of revenue from LOTO should be use to amortized this debt. Annually the Treasury Department should notify to the Municipality the amount applied to the debt.

Borrowing from MRCC

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The total amount of debt is \$663,454 to be paid during 30 years plus annual interest of 6.1875%.

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The total amount of debt is \$310,442 to be paid during 25 years plus annual interest of 6.22%.

On November 28, 2001, the Municipality entered into a repayment agreement with the GDB and MRCC to pay for the proportional debt to cover the Land Information Management System (LIMS), system established by MRCC with the capacity to maintaining cadastre and photos of all real property of Puerto Rico. The original debt was \$395,908 to be paid during 10 years plus annual interest of 5.95%.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2008 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2008.

Claims and Judgments

This amount represents the amount accrued for possible claims arising from litigations.

Solid Waste Disposal

This amount represents the estimated liability of postclosure care costs.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 GENERAL LONG-TERM DEBTS (continuation)

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE	NEW ISSUES	RETIREMENTS	BALANCE
	JULY 1, 2007		AND ADJUSTMENT	JUNE 30, 2008
Property Taxes - Treasury Dept	\$ 131,518	\$ -	\$ (32,880)	\$ 98,638
Law Number 42 - MRCC	623,371	-	(10,501)	612,870
Law Number 146 - MRCC	310,442	-	(12,418)	298,024
LIMS - MRCC	206,960	-	(41,392)	165,568
Christmas Bonus	175,439	196,210	(175,439)	196,210
Solid Waste Disposal	37,222	-	(37,222)	-
Compensated Absences	1,315,701	71,382	-	1,387,083
TOTAL	\$ 2,800,653	\$ 267,592	\$ (309,852)	\$ 2,758,393

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2008:

DESCRIPTION	BALANCE	NEW ISSUES	RETIREMENTS	BALANCE	AMOUNTS	AMOUNTS
	JULY 1, 2007		AND ADJUSTMENT	JUNE 30, 2008	DUE WITHIN ONE YEAR	DUE AFTER NEXT YEAR
General	\$ 9,040,000	\$ 1,115,000	\$ (370,000)	\$ 9,785,000	\$ 590,000	\$ 9,195,000
Special	7,747,766	1,175,000	(82,766)	8,840,000	65,000	8,775,000
Capital Leases	57,838	-	(16,000)	41,838	13,765	28,073
Others	2,800,653	267,592	(309,852)	2,758,393	1,299,042	1,459,351
TOTAL	\$ 19,646,257	\$ 2,557,592	\$ (778,618)	\$ 21,425,231	\$ 1,967,807	\$ 19,457,424

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 GENERAL LONG-TERM DEBTS (continuation)

The annual requirements to amortize the long-term debts outstanding as of June 30, 2008 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds & Note		Other Long-Term Obligation		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2009	\$ 590,000	\$ 490,348	\$ 78,765	\$ 469,394	\$ 1,762,057	\$ 65,496	\$ 2,430,822	\$ 1,025,238
2010	625,000	466,884	109,468	529,977	70,822	61,372	805,290	1,058,233
2011	655,000	405,719	466,605	513,311	74,378	57,044	1,195,983	976,074
2012	705,000	393,668	453,000	487,659	51,600	52,500	1,209,600	933,827
2013	655,000	353,454	463,000	462,233	26,659	50,118	1,144,659	865,805
2014-2018	2,295,000	1,390,589	2,410,000	1,908,382	147,898	223,954	4,852,898	3,522,925
2019-2023	2,140,000	726,869	2,610,000	1,167,827	178,463	174,530	4,928,463	2,069,226
2024-2028	1,795,000	322,421	1,856,000	395,913	219,915	113,770	3,870,915	832,104
2029-2033	325,000	25,226	435,000	86,438	239,259	38,236	999,259	149,900
2034-2035	-	-	-	-	98,637	-	98,637	-
TOTAL	\$ 9,785,000	\$ 4,575,178	\$ 8,881,838	\$ 6,021,134	\$ 2,869,688	\$ 837,020	\$ 21,536,526	\$ 11,433,332

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

NOTE 10 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 11).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 9). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 11 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 personal property tax is self assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 PROPERTY TAXES (continuation)

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2008 resulted in a receivable of \$494,653.

The tax rate for fiscal year 2008 is 10.43% for real property and 8.43% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.40% and 7.40%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 3.40% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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, 2008, the Debt Service Fund presented a receivable of \$24,410 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, 2008

NOTE 12 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 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 13 SALES TAXES

Municipality imposes a Sales and Usage Tax of 1.5% (1% to the Municipality and .5% to the Puerto Rico Department of Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Tax, are required to file a monthly Sales and Use Tax Return Form, no later than the 20th of the following month from the month being reported.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2008, but pertaining to the current year period.

NOTE 14 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, 2008. The Construction Tax is determined based on the total amount of the construction cost of the project.

A 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, 2008

NOTE 15 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 16 PENSION PLAN

Employees of Municipality participate in the Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth of Puerto Rico under the Act No. 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.

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.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month. 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.

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new savings program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 16 PENSION PLAN (continuation)

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

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

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.

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 more	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).

Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable service.

The Municipality follows the provisions of GASB Statement No. 27, *Accounting for Pensions Pension by State and Local Governmental Employers*, which requires employers that participate in cost-sharing multi-employer defined-benefits plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 16 PENSION PLAN (continuation)

The total pension expenditures/expenses recorded in the category of administration for the Fiscal Year Ended June 30, 2005 through 2008 was as follow:

FISCAL YEAR	LAW NO.447	SYSTEM 2000
2008	\$ 91,709	\$ 220,621
2007	97,187	217,303
2006	97,742	211,025
2005	112,260	197,538
2004	103,760	109,552

The Employee's Retirement System of the Commonwealth of Puerto Rico 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 00940-2003.

NOTE 17 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 18 SUBSEQUENT EVENTS

On July 8, 2008, the Municipality Legislature, by means of Ordinance Number 02-EB, Series 2008-2009, approved the issuance of \$2,795,000 of general obligation bonds. On September 9, 2008, the Municipality Legislature, by means of Ordinance Number 06-EB, Series 2008-2009, approved the issuance of \$2,150,000 of general obligation bonds. On August 14, 2008, the Municipality Legislature, by means of Ordinance Number 17-PG, Series 2008-2009, approved the issuance of \$1,006,000 of special obligation bonds. All the funds should be use for general public construction.

NOTE 19 NET ASSETS RESTATEMENT

The following schedules reconciles the June 30, 2007 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2007.

Net Assets, as Previously Reported, At June 30, 2007	\$ 20,242,681
Adjustment to Capital Assets	55,465
Adjustment to Revenues - SBGP	395,908
Adjustment to Obligations Under Capital Lease	<u>(57,838)</u>
Beginning Net Assets, as Restated, At July 1, 2007	<u>\$ 20,636,216</u>

END OF NOTES

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

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, 2008

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget
BUDGETARY FUND BALANCE, JULY 1, 2007	\$ (1,249,329)	\$ (1,249,329)	\$ (1,249,329)	\$ -
Resources (Inflows):				
Property Taxes	2,784,583	2,433,544	2,538,433	104,889
Volume of Business Taxes	2,392,060	2,392,060	2,329,455	(62,605)
Sales Tax	3,808,736	3,808,736	1,114,630	(2,694,106)
Intergovernmental Revenues	5,620,105	5,620,105	5,815,471	195,366
License and Permits	1,001,000	1,001,000	1,196,640	195,640
Miscellaneous	126,500	161,500	451,336	289,836
Total Resources (Inflows)	15,732,984	15,416,945	13,445,965	(1,970,980)
Amounts Available for Appropriation	14,483,655	14,167,616	12,196,636	(1,970,980)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,970,410	1,824,547	1,431,167	393,380
General Government	6,088,551	5,435,859	5,458,806	(22,947)
Public Safety	1,244,447	984,257	951,604	32,653
Public Works	2,262,602	2,895,720	2,664,736	230,984
Culture and Recreation	1,002,303	973,392	1,131,606	(158,214)
Health and Sanitation	624,038	624,038	628,992	(4,954)
Human Services and Welfare	-	-	58,605	(58,605)
Solid Wasted Disposal	2,000,000	1,980,729	2,104,349	(123,620)
Capital Outlays	157,142	337,326	308,507	28,819
Transfer to Other Funds	383,491	361,077	451,365	(90,288)
Total Charges to Appropriations	15,732,984	15,416,945	15,189,737	227,208
BUDGETARY FUND BALANCE, JUNE 30, 2008	\$ (1,249,329)	\$ (1,249,329)	\$ (2,993,101)	\$ (1,743,772)

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

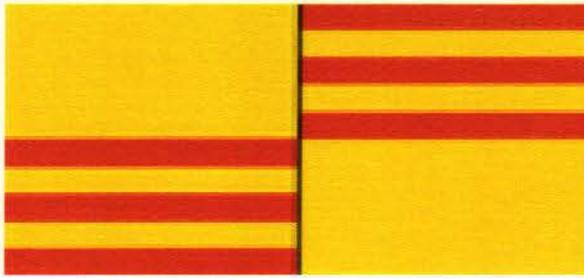
NOTE A Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 47)	\$ 12,196,636
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>1,249,329</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20)	<u>\$ 13,445,965</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 47)	\$ 15,189,737
Difference – Budget to GAAP:	
Expenditures that are considered for financial reportin purpose but are not outflows for budgetary reporting purposes	75,285
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(157,279)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	201,700
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(451,365)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20)	<u>\$ 14,858,078</u>

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

Budgetary Fund Balance, June 30, 2008	\$ (2,993,101)
Timing Differences:	
Non-budgetary Items	1,121,893
Change in Encumbrances	<u>44,421</u>
Unreserved Fund Balance, June 30, 2008	<u>\$ (1,826,787)</u>

END OF THIS SECTION



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MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2008



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MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2008

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**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, 2008, which collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements and have issued our report thereon dated January 9, 2009. 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.

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

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 identified in the accompanying schedule of findings and questioned costs as 2008-2 and 2008-3 to be significant deficiencies in internal control over financial reporting.

Internal Control Over Financial Reporting (continued)

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.

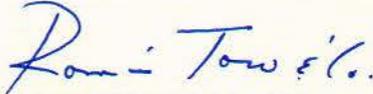
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 2008-5.

The Municipality of San Lorenzo, Puerto Rico's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality of San Lorenzo, Puerto Rico's response and, accordingly, we express no opinion on it.

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
January 9, 2009

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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, 2008. 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, 2008. 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 2008-7.

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)

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 as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 item 2008-7 to be significant deficiency.

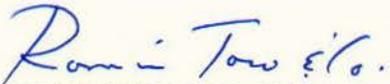
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Municipality of San Lorenzo, Puerto Rico's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality of San Lorenzo, Puerto Rico's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of San Lorenzo, Puerto Rico, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 9, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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
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Yauco, Puerto Rico
January 9, 2009

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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	N/AV	\$ <u>27,409</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers Program.....	14.871	RQ037VO	532,854
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs			
Community Development Block Grants			
Section 108 Loan Guarantees.....	14.248		1,450,401
State Block Grant Program (SBGP).....	14.228	07-AB-58 07-FC-58 07-FR-58 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>2,215,002</u>
Total U.S. Department of Housing and Urban Development			<u>4,198,257</u>
U. S. Department of Justice:			
Pass-Through State Department of Justice:			
Byrne Formula Grant Program	16.579	N/AV	<u>38,670</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>310,888</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$4,575,224</u>

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, 2008

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.

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 MAJOR PROGRAMS

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

END OF NOTES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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
14.248	Community Development Block Grants Section 108 Loan Guarantees

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, 2008**

SECTION II – FINANCIAL STATEMENTS FINDINGS

2008 -1

Type of finding: Financial statement.
Situation: Compliance over local regulations
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): None.

Condition:

As of June 30, 2008, the Municipality closed with an accumulated unreserved deficit of \$1,826,787, and total overall deficit of \$1,150,819, mainly due to a significant insufficiency in Sales and Use Tax revenue from its estimated projections. The overall deficit represents 37% of the Municipality's net assets. On a current-year budgetary basis, the Municipality had an excess of \$1.7 million of expenditures over revenues which, when added to the prior year accumulated deficit of \$1.2 million as required by local law, increased the Municipality's accumulated budgetary deficit to \$2.99 million.

Criteria:

Article 7.011(a) of Law 81 of August 31, 1991, also known as the Autonomous Municipalities Law, states that if the Municipal closes its annual operations with a deficit, it must provide for sufficient resources to cover it during the next fiscal year.

Additionally, Chapter II, Section 3(1) of the Basic Norms Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) requires that the Municipality "exert special care in preparing projections for resources in order to avoid inflation of estimates of local revenues, so that there are no budget appropriations in excess of actual resources available and therefore avoid a deficit at the closing of the fiscal year."

Cause:

The Municipality overestimated its projections for its Sales and Use Tax revenues by a significant amount over the realizable values, resulting in a current-year Sales Tax revenue insufficiency of \$2,694,106, or 70% less than originally projected. Additionally, the Municipality did not revise and reduce its expenditures budget accordingly to compensate the significant revenue insufficiency.

Effect:

The Municipality ended its fiscal year operations with an accumulated deficit of \$2.9 million on a budgetary basis, or \$1.8 million on a modified-accrual basis.

Recommendation:

The Municipality should revise its projections for future years and should implement additional internal controls to assure that: (1) revenue projections are adequate and reasonably accurate and, (2) that if actual revenues are not being generated as originally projected, the Municipality's revenues and expenditures budget be revised accordingly to meet new projections. The Municipality should also implement new internal controls over revisions of accounting and financial data in order to detect, in a timely manner, when revenues, or any other budgetary items, are not meeting expectations, in order to provide sufficient time for the Municipality's management to react to these conditions. The Municipality should ensure that it's subsequent budget (FY 2008-2009) consider the General Fund's accumulated deficit at June 30, 2008 and provide resources to eliminate it, in accordance with Article 7.011(a) of Autonomous Municipal Act (Law 81), as amended.

Management response:

This was the first year that Sales and Use Tax revenues were generated. To correct this situation, the next year's budget's projections for these revenues were revised to avoid overestimation. New controls were implemented to assure that budgets are revised once revenues are not meeting projections. The current deficit was considered in next year's budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008**

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2008 -2

Type of finding: Financial statement.
Situation: Significant deficiency.
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): 2008-1.

Condition:

During our procedures over revenues and receivables, we found various deficiencies in the internal control system of the collections function of the Municipality's Finance Department. This collections function is responsible for receiving, processing, recording, and depositing all collections made by the Municipality, including revenues, receivables and cash transfers, among others. The Municipality did not record daily collections in the OCAM system in a reasonable amount of time. Out of 25 randomly selected official receipts, we found 21 collections made by auxiliary officers for a total of \$598,913 which were posted in the OCAM system between 8 and 47 days after the collections were made.

Criteria:

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

Cause:

This situation occurred because the Municipality's collections system of OCAM has suffered from unexpected crashes, which were not corrected in a timely manner. Additionally, the Municipality did not have alternate mechanisms to record the data.

Effect:

The situations described above increase the risk of loss or misappropriation of cash, an essential asset to the Municipality's operations. It also caused the accounting system of the Municipality to maintain inaccurate information for a prolonged period, possibly affecting management decisions.

Recommendation:

The Municipality should implement sufficient internal controls to properly safeguard assets, including cash, collections, and deposits, in order to reduce associated risks. 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.

Management response:

To correct this situation, the administration made a personnel reorganization in the collection functions. New personnel was trained and oriented about these situations in order to avoid future occurrences.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008**

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2008-3

Type of finding: Financial statement.
Situation: Significant deficiency.
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): 2007-2.

Condition:

The Municipality did not properly reconcile the general ledger balance of its main operating cash account with the bank balance in a reasonable amount of time. The monthly reconciliation of the account for the month of June 2008 (the Municipality's last month of the fiscal year) is commonly performed between July and August after the receipt of bank statements; however the reconciliation was completed in November 2008, more than 4 months after the fiscal year closing date of June 30, 2008.

Criteria:

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

Cause:

The Municipality had the task of reconciling the main current bank account assigned to an employee who resigned in June 2007. This position was filled temporarily during the course of following fiscal year (2007-2008) however, during the year and subsequent fiscal year (2008-2009) the task remained unassigned for an extended period of time due to lack of personnel.

Effect:

The reconciliation of the Municipality's main operating bank account was not completed, 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 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 occurs.

Management response:

To correct this situation, the administration contracted the services of an external company with the purpose of updating reconciliations of the general account, and added new personnel to perform this task. New personnel was trained and oriented about these situations in order to avoid future occurrences.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2008-4

Type of finding: Financial statement.
Situation: Control deficiency.
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): 2007-2.

Condition:

During our procedures over expenditures and disbursements, we found that the Municipality disbursed 5 checks for a total of \$223,502 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 (OCAM) states that the Finance Director must not disburse 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 employee had several objections toward the vendor's compliance with local regulations. The Finance Department claims that these situations are not sufficient to withhold payment and therefore disbursed the funds.

Effect:

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.

Management response:

The municipality's Pre-Intervention Officer signals out any objections at the moment of approving a disbursement, notifying the Finance Director. The Finance Director takes the necessary actions to assure that the Municipality does not disburse any funds without the required authorizations and signatures.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2008 -5

Type of finding: Financial statement.
Situation: Control deficiency.
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): None.

Condition:

The Municipality awarded \$283,304 to 9 indigent citizens for the reconstruction or new construction of their homes in an effort to provide adequate housing, without seeking prior approval of the Municipality's Legislative Assembly and without properly documenting the economic situation of the citizen in order to provide documented evidence that the donation was fully qualified under local regulations.

Criteria:

The Municipality is required to seek proper approval from authoritative bodies before making donations to natural persons. Article 9.015(a) of Law 81 of August 31, 1991, also known as the Autonomous Municipalities Law, states that the Municipality may award donations to natural persons who present an authentic and specific social need, including adequate housing, so long as the Municipality obtain approval from its Municipal Legislative Assembly by means of resolution or ordinance, with approval of two-thirds (2/3) of its members. Article 9.015(a) also requires that the Municipality provided documented evidence that the recipient is indigent, a term defined by the Puerto Rico Commissioner for Municipal Affairs; that the donation is destined to meet the recipient's social need directly; and that the Municipality's functions, activities, and operations are not adversely interrupted.

Cause:

The Municipality obtained the request from indigent citizens; however, in the process of accelerating funds to meet these social needs the process required by local regulations was not followed in its entirety.

Effect:

The Municipality donated resources without following due process of applicable local laws and regulations.

Recommendation:

The Municipality must ensure that all donations awarded and disbursed are properly approved as required by local regulations, and properly documented to ensure compliance.

Management response:

This situation does not represent the administrative and fiscal practice of the Municipality's administration, and was a separate incident. To assure future avoidance, the personnel of the Citizens Assistant Office were oriented about the necessary documents to provide assurance that donations are fully qualified under local regulation. Also, the Finance Office received orientation about donations that need the approval of the Municipality's Legislative Assembly and regulations over donations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2008-6

Type of finding: Financial statement.
Situation: Control deficiency.
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): None.

Condition:

The Municipality disbursed two checks for payment of the federally-subsidized Section 108 loan balance for a total disbursement of \$321,429, with checks made out to "Cash" as the payee, leaving an ambiguity which posed significant risk of loss due to misplacement or theft.

Criteria:

The Municipality is required to maintain adequate internal controls to safeguard its most essential asset, cash. Chapter IV, Section 9(6) of the Basic Norms Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) requires that all of the Municipality's disbursements be made directly to the order of the specific creditor for which payment is owed.

Cause:

The Municipality mistakenly understood that payments made to the bank institution for payment required to be made to the order of "Cash", in order for the transaction to be performed.

Effect:

The Municipality's cash, represented by outstanding checks, was exposed to a significant risk of losses had the payment been lost or stolen and cashed by another person or entity.

Recommendation:

The Municipality should ensure that all payments be made to the destined recipient by including the specific name of the payee, and that no checks be left to ambiguous payees, including but not exclusive to "Cash" or "Porter", in order to avoid losses if it is cashed by an unintended party.

Management response:

The financial institution only accepted the checks made out to "Cash". To avoid this situation in the future, the Municipality agreed with the financial institution to perform this transaction through electronic transmission.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-7

Type of finding: Federal Award Finding.

Situation: Control deficiency.

Federal Program: Community Development Block Grants Section 108 Loan Guarantees (14.248).

Compliance Requirements: Local regulations.

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

Condition:

The Municipality disbursed two checks for payment of the federally-subsidized Section 108 loan balance for a total disbursement of \$321,429, with checks made out to "Cash" as the payee, leaving an ambiguity which posed significant risk of loss due to misplacement or theft.

Criteria:

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

Cause:

The Municipality mistakenly understood that payments made to the bank institution for payment required to be made to the order of "Cash", in order for the transaction to be performed.

Effect:

The Municipality's cash, represented by outstanding checks, was exposed to a significant risk of losses had the payment been lost or stolen and cashed by another person or entity.

Recommendation:

The Municipality should ensure that all payments be made to the destined recipient by including the specific name of the payee, and that no checks be left to ambiguous payees, including but not exclusive to "Cash" or "Porter", in order to avoid losses if it is cashed by an unintended party.

Questioned costs:

None.

Management response:

The financial institution only accepted the checks made out to "Cash". To avoid this situation in the future, the Municipality agreed with the financial institution to perform this transaction through electronic transmission.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
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(1) Audit Findings that have been fully corrected or not noted during our audit:

2007	2007-4	Deficiencies in recording Section 8 federal subsidy deposits in a timely manner.	14.871	None.	
2006, 2007	2006-III-02, 2007-6	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 was not noted during our audit.

(2) Audit Findings not corrected or partially corrected:

2007	2007-5	Disbursement of SBGP funds without obtaining necessary approval and signature from Pre-Intervention personnel.	14.228	None.	This situation was noted, but not for the SBGP federal program. See finding 2008-
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(3) Corrective action taken is significantly different from corrective action previously reported:

NONE.

(4) Audit findings are no longer valid:

NONE.

END OF SCHEDULE