

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

**MUNICIPIO DE SAN LORENZO
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010**



MUNICIPALITY OF SAN LORENZO, PUERTO RICO

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

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**MUNICIPALITY OF SAN LORENZO, PUERTO RICO
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2010**

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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, 2010, 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.

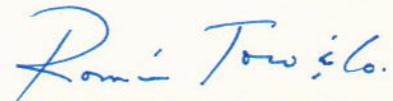
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2010, 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 March 3, 2011, 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 43 through 44, 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 financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



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Yauco, Puerto Rico
March 3, 2011

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the original of this report

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2010. 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 2010 by \$20,363,806 (net assets).
- Revenues increased by \$2,814,763 (13%) and expenses increased by \$1,034,134 (5%) in comparison with year 2009, as restated.
- Net change in net assets amounted to \$1,711,716, an increase of \$1,840,904 with respect to prior year (2009) net change.

Highlights for Fund Financial Statements

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

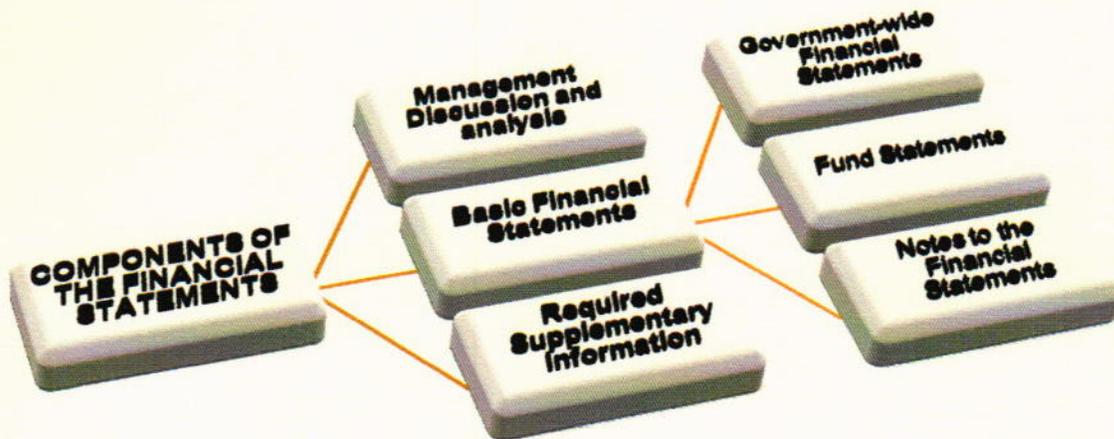
- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$9,950,329, a decrease of (\$2,792,756) in comparison with the prior year.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of (\$1,395,957) and an unreserved (deficit) fund balance of (\$1,655,284). Unreserved (deficit) fund balances increased by \$1,498,545 from prior year.

General Financial Highlights

- The investment in net capital assets as of June 30, 2010 was \$19,999,052 (net of related debt).
- Long-term debt general and special obligation bonds increased to \$26,479,679, approximately 4% with respect to prior year balance for the issuance of general and special bonds for \$2,235,000 for the construction of multiple projects, and operational purposes.
- Other long term debts increases and net reductions from payments amounted to \$412,006 and \$404,055, respectively.
- On a budgetary basis, actual expenditures exceeded actual revenues and transfers by (\$1,527,227).
- Revenues decrease was mainly in licenses and permits of (\$736,934), sales and usage tax (\$556,719), and volume of business taxes (\$287,747).

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.

◆ *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.

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, 2010 and 2009:

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year were maintained stable with an increase of 10% with respect to prior year as restated. The most significant changes were a decrease in restricted assets of (\$232,813) and a decrease of the deficit by \$188,698. Also, an increase in capital assets by \$5,477,211 (net of depreciation), with an increase in long-term debt by \$987,951, that should be use principally for the construction of various projects and to finance part of the deficit of the general and special funds.

Commonwealth of Puerto Rico Municipality of San Lorenzo, Puerto Rico Statement of Net Assets As of June 30,		
	2010	2009
Current and Non-Current Assets	\$ 15,477,369	\$ 18,580,689
Capital Assets	37,987,828	32,510,617
Total Assets	53,465,197	51,091,306
Current Liabilities	1,772,391	1,777,647
Deferred Revenues	2,230,061	2,610,856
Long-Term Liabilities	29,098,939	28,110,988
Total Liabilities	33,101,391	32,499,491
Net Assets:		
Investment in Capital Assets, Net of Related Debt	19,999,052	18,243,221
Restricted (As Restated)	3,594,243	3,827,056
Unrestricted (Deficit)	(3,229,489)	(3,418,187)
Total Net Assets	\$ 20,363,806	\$ 18,652,090

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$19,999,052; total capital assets (\$48,299,995) less accumulated depreciation (\$10,312,167) and less any related outstanding debt (\$17,988,776) 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, 2010 the Municipality presented unrestricted (deficit) net assets of (\$3,229,489). This balance was affected by long term obligations such as compensated absences \$1,560,003 and other debts for the amount of \$1,151,936 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.

Changes in Net Assets

The following table summarizes the changes in net assets for the years ended June 30, 2010 and 2009:

With respect to prior year, revenues increased by approximately \$2.8 million or 11%, principally on capital grants and contributions. There was also a donation of \$2.2 million of Capital Assets.

Expenses increased 4% or \$1,034,134 in comparison with 2009 year. Significant increases were registered on general administration and urban development incurred for the benefit of the community and employees.

Commonwealth of Puerto Rico Municipality of San Lorenzo, Puerto Rico Changes in Net Assets For Fiscal Years Ending June 30,		
	2010	2009
Revenues:		
Program Revenues:		
Changes for Services	\$ 310,685	\$ 38,400
Operating Grants and Contributions	6,495,188	3,188,964
Capital Grants and Contributions	46,916	3,900,259
General Revenues:		
Property Taxes	5,553,594	4,813,535
Volume of Business Taxes	2,458,793	3,027,403
Sales and Usage Taxes	1,659,142	917,929
Licenses and Permits	764,566	587,611
Intergovernmental	5,317,782	5,321,539
Other General Revenues	176,426	446,361
Special Item - Donated Capital Assets	2,273,672	-
Total Revenues	25,056,764	22,242,001
Expenses:		
General Administration	12,274,416	10,657,956
Public Safety	1,078,619	1,051,475
Public Works	1,919,776	1,908,518
Culture and Recreation	969,134	812,120
Health and Sanitation	625,719	629,369
Solid Wasted Disposal	1,580,102	2,235,082
Human Services and Welfare	1,283,662	1,245,164
Urban Development	2,532,216	2,522,298
Loss on Disposition of Assets	-	91,654
Interest Costs	1,081,404	1,157,278
Total Expenses	23,345,048	22,310,914
Changes in Net Assets	1,711,716	(68,913)
Net Assets-Beginning, as Restated	18,652,090	18,721,003
Net Assets-Ending	\$ 20,363,806	\$ 18,652,090

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

FIGURE 1

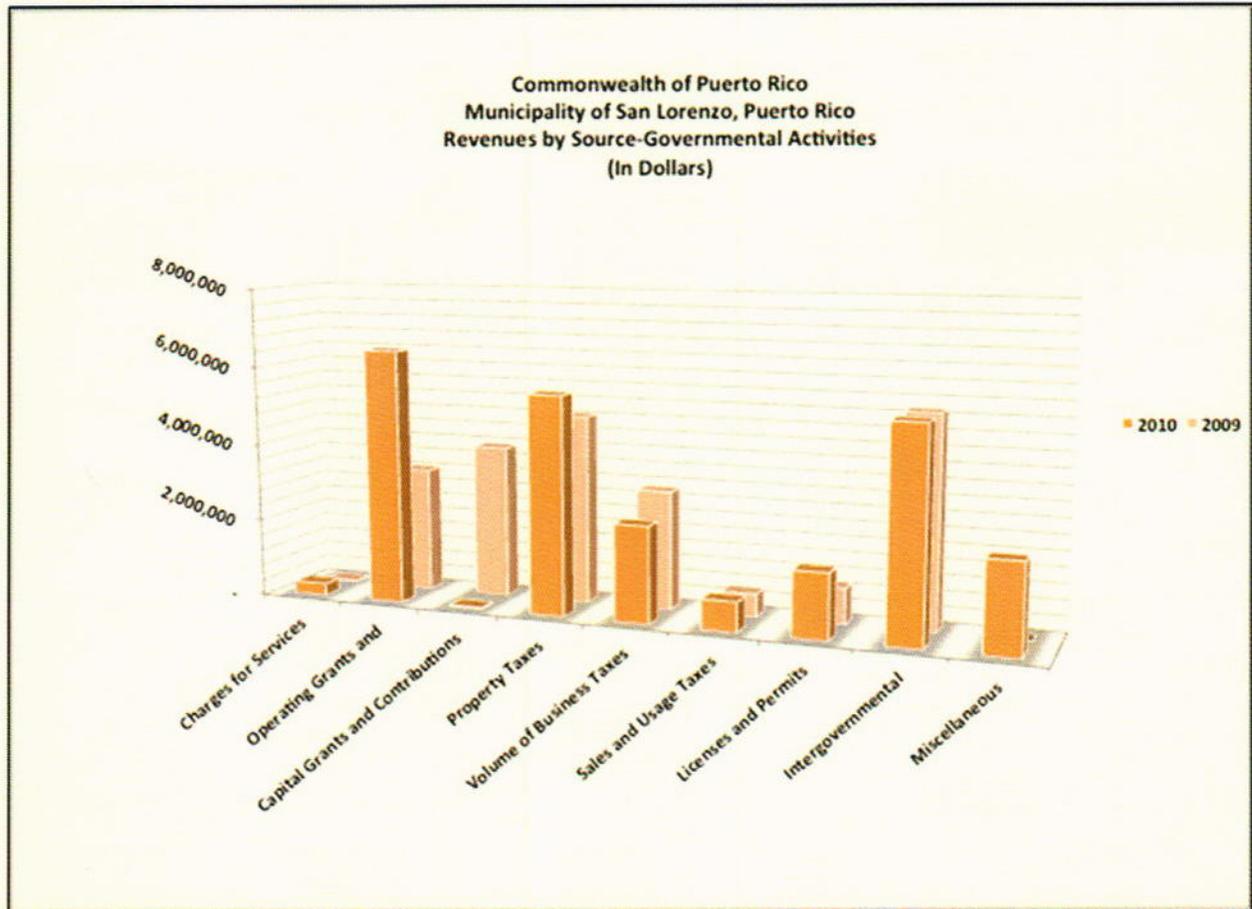
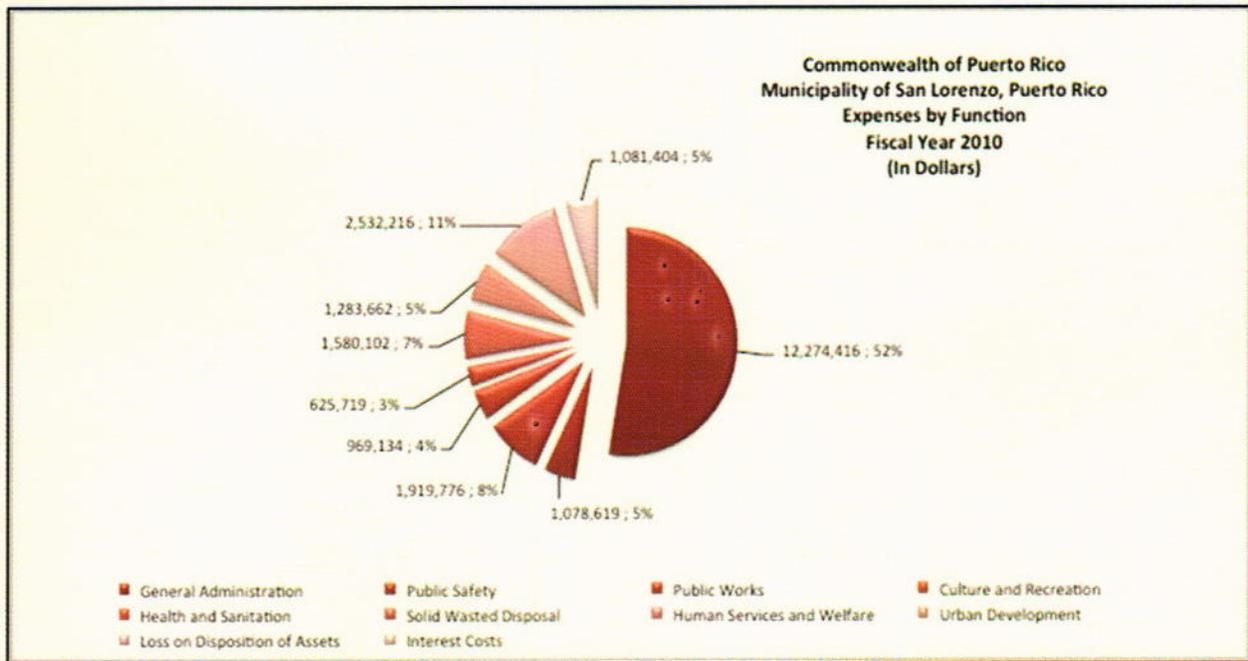


Figure 2 presents expenses by function of the governmental activities during the fiscal year 2009-2010:

FIGURE 2



Approximately 21.4% of the Municipality's revenues came from intergovernmental, 22.3% from property taxes, 26.1% from grants and contributions, and 30.2% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 52.6%, public works with 8.2%, solid waste disposal with 6.8% and urban development with 10.8%. Program revenues of the Municipality covered 27% of total expenses.

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):

Commonwealth of Puerto Rico Municipality of San Lorenzo, Puerto Rico Met Cost of Municipality's Governmental Activities For Fiscal Years Ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General Administration	\$ 12,274,416	\$ 10,657,956	\$ 8,411,996	\$ 8,492,728
Public Safety	1,078,619	1,051,475	1,078,619	911,730
Public Works	1,919,776	1,908,518	1,883,092	1,193,236
Culture and Recreation	969,134	812,120	969,134	812,120
Solid Waste Disposal	1,580,102	2,235,082	1,580,102	2,235,082
Human Services and Welfare	1,283,662	1,245,164	(485,277)	130,104
Urban Development	2,532,216	2,522,298	1,347,470	(409,735)
Others	1,707,123	1,878,301	1,707,123	1,878,301
Total	\$ 23,345,048	\$ 22,310,914	\$ 16,492,259	\$ 15,243,566

Some of the cost of governmental activities in 2010 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$6,852,789). The \$16,492,259 net cost of services was substantially covered by other general revenues including property, volume of business, sales and usage, and construction taxes, and intergovernmental revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental Funds

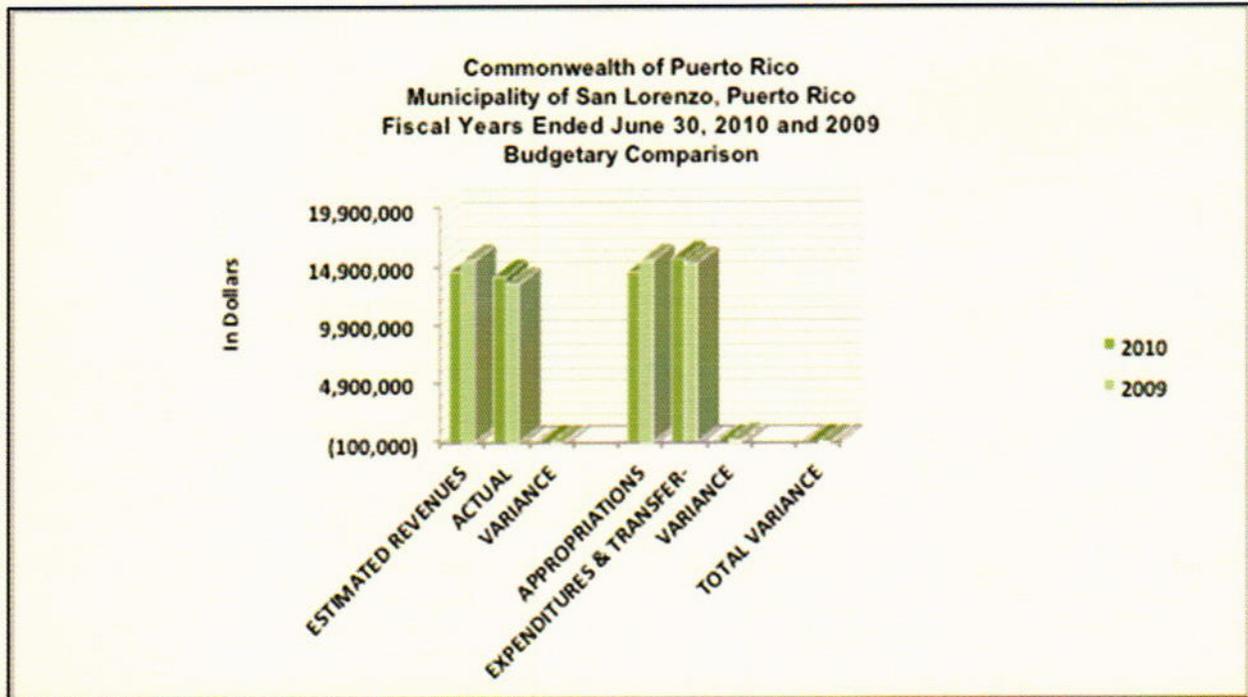
The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2010, the governmental funds reported combined ending fund balances of \$9,950,329, a net decrease of (\$2,792,756) in comparison with the prior year. This decrease was primarily by a net change in the Multiuses Coliseum fund of (\$2,220,138), and a proceeded of bonds of \$2,235,000, to be used for various construction projects, and other operational purposes. Of total combined fund balances, (\$2,859,275) constitutes unreserved (deficit) fund balance of general fund, which was financed by the use 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 136% of total ending general fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2009-2010 presented a decrease of 3% with respect to prior year budget. During the fiscal year budget revenues were decreased by \$450,764, offsetted by revision of original estimate of property taxes. The Municipality does not include an amendment to the budget the positive and negative changes on others revenues, principally in volume of business taxes (\$287,747) sales and usage taxes (\$556,719), licenses and permits (\$736,934). Budget expenditures were amended during the year in accordance with functions estimates (see **Figure 3** below).

FIGURE 3



The negative variance of (\$1,527,227) between revised budget and actual results was due mainly to a decrease in revenues as explained in the preceding paragraph, and an increase in the general government expenditures during the year. The Municipality reported more expenditures than appropriations in those functions for payments to purchase of supplies, professional and nonprofessional services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Municipality has invested \$37,987,828 (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 \$5,477,211 or 17% from the prior year.

The Municipality invested a total of \$5,042,645 of capital assets during the fiscal year 2009-2010 as follows:

- Construction in Progress – \$2,425,242
- Acquisition of Land – \$2,273,672 (Donated)
- Acquisition of Machinery and Equipment – \$179,968
- Acquisition of Motor Vehicles – \$163,763

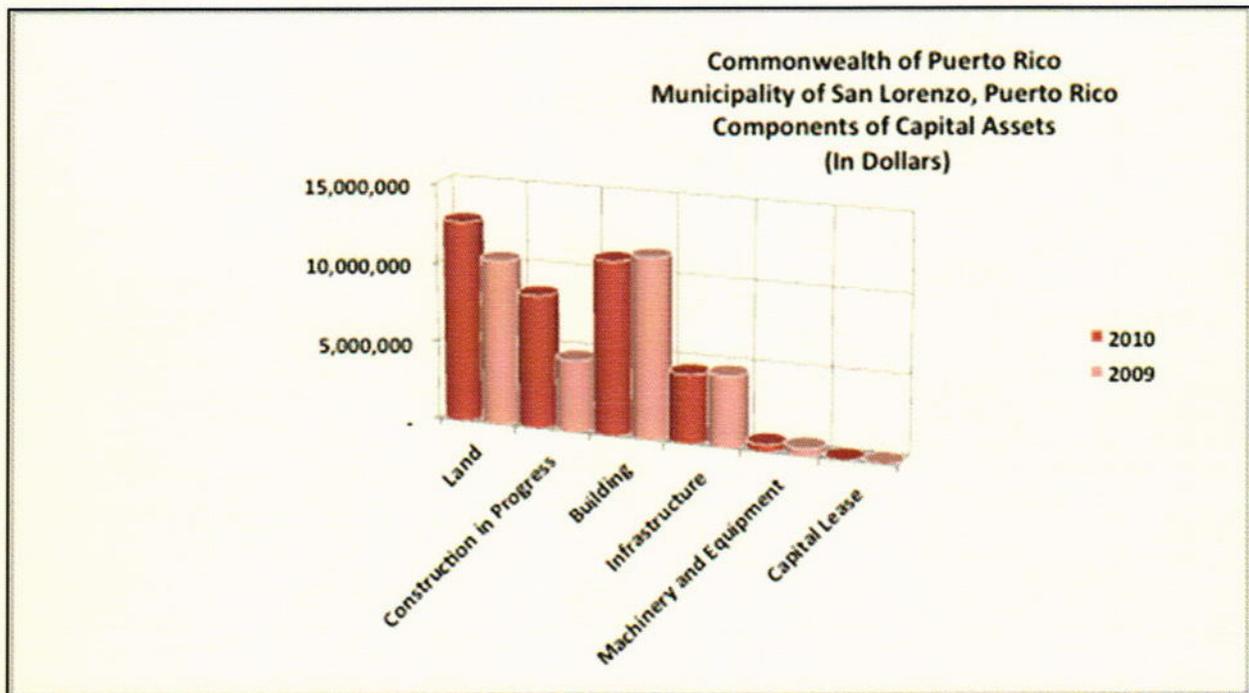
Also, various assets were eliminated (\$26,718). Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2010.

Construction in progress was principally for improvement to recreational facilities and sidewalk, and construction of the Activities Center and Coliseum.

Commonwealth of Puerto Rico Municipality of San Lorenzo, Puerto Rico Capital Assets, net As of June 30,		
	Governmental Activities	
	2010	2009
Non-depreciable assets:		
Land	\$ 12,644,151	\$ 10,370,821
Construction in Progress	8,404,718	4,526,854
Depreciable assets:		
Buildings	10,994,374	11,399,181
Infrastructure	4,346,820	4,495,657
Machinery and Equipment	445,909	447,131
Capital Lease	13,895	27,752
Motor Vehicles	1,137,961	1,243,221
total	\$ 37,987,828	\$ 32,510,617

Figures 4 below present the components of capital assets during the fiscal years 2010 and 2009:

FIGURE 4



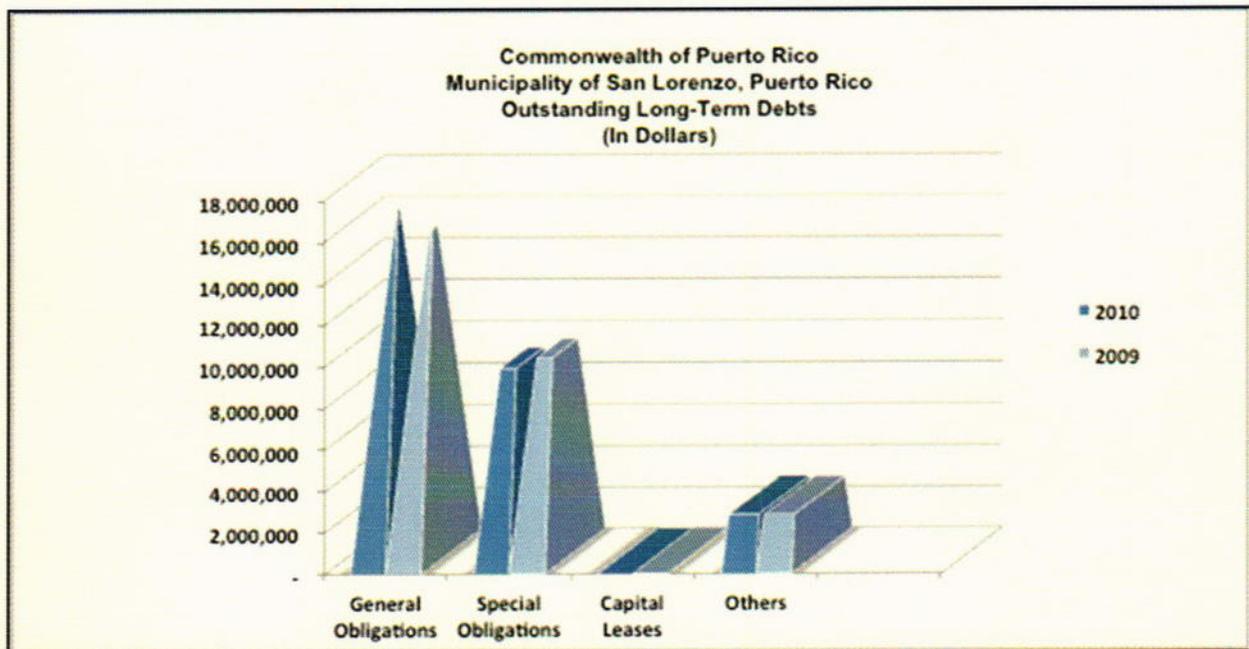
Long-Term Debt

At year-end, the Municipality had \$26,387,000 in general and special obligations, an increase of 4% with respect to prior year due to the issuance of \$2.6 million of general and special obligation. The following is a summary of the Municipality's outstanding debt as of June 30, 2010 and 2009:

Commonwealth of Puerto Rico Municipality of San Lorenzo, Puerto Rico Outstanding Long-Term Debt As of June 30,		
	Governmental Activities	
	2010	2009
General and Special Obligations	\$ 26,387,000	\$ 25,407,000
Property Taxes-Treasury Dept	-	65,758
Law No. 42-MRCC	589,847	601,709
Law No. 146-MRCC	273,189	285,606
LIMS - MRCC	75,135	121,676
Christmas Bonus	183,426	168,971
Capital Leases	13,839	28,073
Deferred Charges	16,500	-
Compensated Absences	1,560,003	1,432,195
Total	\$ 29,098,939	\$ 28,110,988

Figure 5 present the components of long-term debts during the fiscal year 2010 and 2009:

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 2009-2010 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 18%, which compares with the Commonwealth rate of 15.7%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2011 are \$14 million, approximately \$100,000 less than the fiscal year 2010. 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.

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, 2010

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and Investments	\$ 4,577,510
Cash with Fiscal Agent	9,199,894
Receivables (net):	
Property Taxes	237,620
Sales and Usage Taxes	76,560
Due from Governmental Units	91,713
Federal Grants	1,180,309
Total Currents Assets	<u>15,363,606</u>
Deferred Charges	<u>113,763</u>
Capital Assets:	
Land, Improvement and Construction in Progress	21,048,869
Other Capital Assets [Net of Depreciation]	<u>16,938,959</u>
Total Capital Assets	<u>37,987,828</u>
TOTAL ASSETS	<u>53,465,197</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	1,329,893
Accrued Interest	326,457
Due to Governmental Units	116,041
Deferred Revenues	2,230,061
Long-Term Liabilities:	
Due Within One Year	2,619,260
Due in More than One Year	<u>26,479,679</u>
TOTAL LIABILITIES	<u>33,101,391</u>
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt	19,999,052
Restricted for:	
Capital Projects	92,779
Debt Service	3,123,280
Community Development Projects	378,184
Unrestricted (Deficit)	<u>(3,229,489)</u>
TOTAL NET ASSETS	<u>\$ 20,363,806</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, 2010

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,126,674	\$ -	\$ -	\$ -	(2,126,674)
General Government	10,147,742	310,685	3,551,735	-	(6,285,322)
Public Safety	1,078,619	-	-	-	(1,078,619)
Public Works	1,919,776	-	-	36,684	(1,883,092)
Culture and Recreation	969,134	-	-	-	(969,134)
Health and Sanitation	625,719	-	-	-	(625,719)
Solid Waste Disposal	1,580,102	-	-	-	(1,580,102)
Human Services and Welfare	1,283,662	-	1,768,939	-	485,277
Urban Development	2,532,216	-	1,174,514	10,232	(1,347,470)
Interest on Long-Term Debt	1,081,404	-	-	-	(1,081,404)
Total Governmental Activities	\$ 23,345,048	\$ 310,685	\$ 6,495,188	\$ 46,916	(16,492,259)

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	3,523,695
Property Taxes, levied for Debt Service	2,029,899
Volume of Business Taxes	2,458,793
Sales and Usage Taxes	1,659,142
Licenses and Permits	764,566
Intergovernmental	5,317,782
Miscellaneous	176,426
Special Item - Donated Capital Assets	2,273,672
Total General Revenues	18,203,975

CHANGES IN NET ASSETS

Net Assets – Beginning of Year, As Restated

NET ASSETS – ENDING OF YEAR

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUNDS	SBGP FUND	CAPITAL IMPROVEMENT FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:								
Cash and Investment	\$ 37,895	\$ 2,738,195	\$ 949,022	\$ 277	\$ -	\$ -	\$ 852,121	\$ 4,577,510
Cash with Fiscal Agent	1,636	-	1,313,758	-	2,053,661	3,212,117	2,618,722	9,199,894
Receivables:								
Property Taxes	-	-	-	-	-	237,620	-	237,620
Sales and Usage Taxes	76,560	-	-	-	-	-	-	76,560
Federal Grants	-	-	-	894,606	-	-	285,703	1,180,309
Due from Other Funds	2,042,371	632,820	125,000	-	-	-	28,571	2,828,762
Due from Governmental Units	91,713	-	-	-	-	-	-	91,713
Total Assets	\$ 2,250,175	\$ 3,371,015	\$ 2,387,780	\$ 894,883	\$ 2,053,661	\$ 3,449,737	\$ 3,785,117	\$ 18,192,368
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts Payable	\$ 709,824	\$ -	\$ 244,461	\$ 69,497	\$ -	\$ -	\$ 306,111	\$ 1,329,893
Bonds Payable	-	-	-	-	-	880,000	-	880,000
Accounts Interest	-	-	-	-	-	326,457	-	326,457
Due to Governmental Units	116,041	-	-	-	-	-	-	116,041
Due to Other Funds	757,820	-	-	447,202	-	-	1,623,740	2,828,762
Deferred Revenues:								
Volume of Business Tax	2,230,061	-	-	-	-	-	-	2,230,061
Commonwealth of Puerto Rico	91,713	-	-	-	-	-	-	91,713
Federal Grants	-	-	-	378,184	-	-	60,928	439,112
Total Liabilities	\$ 3,905,459	\$ -	\$ 244,461	\$ 894,883	\$ -	\$ 1,206,457	\$ 1,990,779	\$ 8,242,039
Fund Balances:								
Reserve For:								
Encumbrances	1,203,991	-	-	-	-	-	-	1,203,991
Debt Service	-	-	-	-	-	2,243,280	-	2,243,280
Capital Projects	-	3,371,015	2,143,319	-	2,053,661	-	-	7,567,995
Others Purpose	-	-	-	-	-	-	1,794,338	1,794,338
Unreserved (Deficit)	(2,859,275)	-	-	-	-	-	-	(2,859,275)
Total Fund Balances	(1,655,284)	3,371,015	2,143,319	-	2,053,661	2,243,280	1,794,338	9,950,329
Total Liabilities and Fund Balances	\$ 2,250,175	\$ 3,371,015	\$ 2,387,780	\$ 894,883	\$ 2,053,661	\$ 3,449,737	\$ 3,785,117	\$ 18,192,368

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, 2010

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUNDS	SBGP FUND	CAPITAL IMPROVEMENT FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:								
Property Taxes	\$ 3,523,695	\$ -	\$ -	\$ -	\$ -	\$ 2,029,899	\$ -	\$ 5,553,594
Volume of Business Taxes	2,458,793	-	-	-	-	-	-	2,458,793
Sales and Usage Taxes	995,281	-	-	-	-	406,132	257,729	1,659,142
Federal Assurances	-	36,684	-	-	-	-	1,708,011	1,744,695
Intergovernmental	5,316,130	-	10,232	1,067,236	-	-	3,551,735	9,945,333
Licenses and Permits	764,566	-	-	-	-	-	-	764,566
Rent	10,283	-	-	-	-	-	-	10,283
Interests	3,959	-	-	-	-	-	-	3,959
Miscellaneous	162,184	-	-	-	-	-	310,685	472,869
Total Revenues	13,234,891	36,684	10,232	1,067,236	-	2,435,031	5,828,160	22,613,234
EXPENDITURES:								
Current								
Mayor and Municipal Legislature	1,821,658	-	-	-	-	-	-	1,821,658
General Government	7,284,017	-	-	-	-	-	2,648,251	9,932,268
Public Safety	883,768	-	-	-	-	-	72,845	956,613
Public Works	1,287,429	-	-	-	-	-	378,167	1,665,596
Culture and Recreation	887,796	-	-	-	-	-	-	887,796
Health and Sanitation	625,719	-	-	-	-	-	-	625,719
Solid Waste Disposal	1,580,102	-	-	-	-	-	-	1,580,102
Human Services and Welfare	125,070	-	-	1,067,236	-	-	1,026,419	1,151,489
Urban Development	-	-	-	-	-	-	1,403,977	2,471,213
Capital Outlay	135,289	5,076	2,435,691	-	181,339	-	1,464,200	4,221,595
Debt Service:								
Principal	-	-	-	-	-	1,245,536	-	1,245,536
Interest and Other Charges	-	-	-	-	-	1,081,404	-	1,081,404
Total Expenditures	14,630,848	5,076	2,435,691	1,067,236	181,339	2,326,940	6,993,859	27,640,989
Excess of Revenues Over (Under) Expenditures	(1,395,957)	31,608	(2,425,459)	-	(181,339)	109,091	(1,165,699)	(5,027,755)
OTHER FINANCING SOURCES (USES):								
Proceed of Note	-	-	-	-	2,235,000	-	-	2,235,000
Transfer - In	800,663	-	-	-	-	609,780	75,621	1,486,064
Transfer - Out	(364,017)	(321,384)	-	-	-	-	(800,663)	(1,486,064)
Total Other Financing Sources and Uses	436,646	(321,384)	-	-	2,235,000	609,780	(725,042)	2,235,000
Net Change in Fund Balance	(959,311)	(289,776)	(2,425,459)	-	2,053,661	718,871	(1,890,741)	(2,792,755)
Fund Balance - Beginning	(695,973)	3,660,791	4,568,778	-	-	1,524,409	3,685,079	12,743,084
FUND BALANCE - ENDING	\$ (1,655,284)	\$ 3,371,015	\$ 2,143,319	\$ -	\$ 2,053,661	\$ 2,243,280	\$ 1,794,338	\$ 9,950,329

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, 2010

Total Fund Balances – Government Funds (Page 16)		\$ 9,950,329
Amount reported for Governmental Activities in the Statement of Net Assets (Page 14) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	\$ 21,048,869	
Depreciable General Capital Assets	21,555,753	
Infrastructure Assets	5,695,373	
Accumulated Depreciation	<u>(10,312,167)</u>	
Total Capital Assets		37,987,828
Other Assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred Charges		113,763
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	378,184	
Child and Adult Care Food Program	60,928	
Christmas Bonus	<u>91,713</u>	530,825
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	(25,507,000)	
Capital Lease	(13,839)	
Christmas Bonus	(183,426)	
Law Number 146 - MRCC	(273,189)	
Law Number 42 - MRCC	(589,847)	
LIMS - MRCC	(75,135)	
Deferred Credit	(16,500)	
Compensated Absences	<u>(1,560,003)</u>	
Total Long-Term Liabilities		<u>(28,218,939)</u>
Total Net Assets of Governmental Activities (Page 14)		\$ 20,363,806

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances – Government Funds (Page 17)		\$ (2,792,755)
Amount reported for Governmental Activities in the Statement of Activities (Page 15) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Assets	\$ 4,221,595	
Depreciation Expense	<u>(1,018,056)</u>	
Excess of Capital Assets over Depreciation Expense		3,203,539
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:		
Amortization of Deferred Charges		(10,871)
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds:		
Property Taxes	(5,576)	
Christmas Bonus	7,228	
Community Development Block Grant	107,278	
Child and Adult Care Food Program	<u>60,928</u>	
Total of Revenues		169,858
Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.		2,273,672
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		(2,235,000)
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		1,245,536
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	(14,455)	
Increase in Compensated Absences	<u>(127,808)</u>	
Total Additional Expenses		<u>(142,263)</u>
Change in Net Assets of Governmental Activities (Page 15)		\$ <u>1,711,716</u>

See accompanying notes to basic financial statements

1. FINANCIAL REPORTING ENTITY

A. Organization

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.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable (blended component units), and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units).

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. Section 2600 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards* requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB Codification describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

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.

(1) Primary Government

A primary government consists of all organizations that make up its legal entity. Accordingly, consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

(2) Discrete Component Unit

Discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. It is financially accountable to the primary government, or has relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Municipality organized the "Corporación para el Desarrollo Jugos Festival, Municipio de San Lorenzo C.D. (Corporation)", on January 26, 2010 under Article 17.003 of the Commonwealth of Puerto Rico, Law Number 81 of August 30, 1991, as amended, as a corporation for development, to continue with the production of natural juices with the trademark "Productos Festival", actually been operated by the "Organización Agricultores Barrio Espino, Inc." (OABE). At June 30, 2010, the transfers of assets, liabilities, and operations of OABE are pending to be transferred to the Corporation. Also, OABE has continually incurred in net operating loss creating a deficit exceeding its net assets by more than \$300,000, it is in default of its payments for its debts with creditors, creating an uncertainty about its ability to continue as a going concern. Accordingly, the ability of OABE to continue as a going concern and final transfers of assets, liabilities, and operations to the Corporation is dependent on acceptance of OABE's creditors, the influx of significant financial capital and support. For these reasons, the Municipality's financial statements do not include the Corporation's financial statements as a discrete component unit.

1. FINANCIAL REPORTING ENTITY (continuation)

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units (USGAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental type.

The financial information of the Municipality is presented in this report as follows:

Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-wide Financial Statements (GWFS)

The GWFS (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the Municipality. For the 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. Net assets are restricted when constraints are placed on them that are imposed by external parties or by laws or regulations. Designations solely imposed by the Municipality's management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Municipality's policy is to use the restricted resources first.

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. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. 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 (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, 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.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The GWFS are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds. Subject to the additional rules and limitations detailed below, revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying GWFS include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four classes in the basic financial statements:

Derived Tax Revenues – in this revenue, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

Imposed Non-exchange Revenues – in this revenue (such as property taxes and volume of business taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and volume of business taxes are recognized as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government Mandated Non-exchange Transactions – in this revenue (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For part of the grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary Non-exchange Transactions – in this revenue (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Governmental Funds Financial Statements

The GFFS 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 these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Significant revenues subject to accrual include federal grants and sales and usage taxes. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2010, all revenues sources met this availability criterion.

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

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to Section N50 of the GASB Codification *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.

In a manner similar to GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met.

The Municipality generally accrues a governmental fund liability and expenditures (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying balance sheet – governmental funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-Term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds. Modifications to the accrual basis of accounting include:

- a. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2010, which are recorded as governmental fund liabilities of June 30, 2010 which is the date when resources were available in the debt service fund.
- b. Obligations from compensated absences and the estimated liability for municipal solid waste landfill post-closure care costs are recorded only when they mature (when payment is due).
- c. Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying *Statement of Net Assets*. Such liabilities are recorded in the governmental funds when they mature.
- d. Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

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.

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

Multiuses Coliseum Fund – This is used to account for the construction of the Multiuses Coliseum in San Lorenzo, Puerto Rico.

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.

Capital Improvement Fund – Accounts for major improvements and constructions of various capital projects of the Municipality.

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

The non-major funds are combined in a single column in the GGFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

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 Schedule – General Fund 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Assets, Liabilities, and Net Assets

1) *Cash and Investment, and Cash with Fiscal Agent*

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico*, issued by the GDB as promulgated by Law No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, 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 interest bearing commercial bank accounts are recognized as revenue in the General Fund, Art Center Fund and in Multiuses Coliseum Fund in accordance with amount invested. Cash in the Special Revenue 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 Government, deposit in the GDB 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 GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) *Receivables and Payables*

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

Advance between funds, as reported in the fund financial statements, 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.

Receivables consist of all revenues earned but not collected at June 30, 2010. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

3) *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.

4) *Deferred Charges*

Deferred charges in the accompanying *Statement of Net Assets* consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

5) 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 GWFS. 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 Municipality 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 Municipality 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 GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

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

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

In the accompanying GFFS, the lease payments are recorded as expenditures in the governmental fund.

6) Deferred Revenues

In the GWFS, deferred revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when one of the following situations occur: (1) potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period (unavailable revenue), and (2) the Municipality receives resources before it has a legal claim to them (unearned revenue).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS 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 post closure 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 GFFS, 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.

8) 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 at the current rate. 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; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with Section C60 of the GASB Codification, 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 using salary rates effective at June 30, 2010. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, 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.

9) 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 when the liability is incurred. 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.

10) Accounting for Pension Costs

The Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No. 27, *Accounting for Pensions by State and Local Governments Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

For the purpose of applying the requirements of GASBS No. 27, the state government of the Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

11) Net Assets/Fund Balance

Net Assets

The GWFS and Proprietary Funds Financial Statements utilize a net assets presentation, which are categorized as follow:

- *Invested in Capital Assets, Net of Related Debt* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets. Net assets invested in capital assets, net of related debt is comprised of the following:

	<u>Governmental Activities</u>
Capital Assets, Net of Accumulated Depreciation	\$37,987,828
Outstanding Balance on Related Debt	(26,662,000)
Unspent Capital Debt Proceeds	<u>8,673,224</u>
Total Invested in Capital Assets, Net of Related Debt.....	<u>\$19,999,052</u>

- *Restricted Net Assets* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Balance

The GFFS 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* – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *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 under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- *Reserve for Other Purposes* – Certain assets, primarily cash of grants and contributions that are authorized to be carried over and expended in the ensuing year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

E. 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.

F. 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, 2010 amounted to approximately \$197,943. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$269,459 for workers compensation insurance covering all municipal employees for the same period.

G. Use of Estimates

The preparation of the basic financial statements in conformity with USGAAP 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.

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2010:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011.

GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged.

3. CASH AND INVESTMENTS

Cash in Banks

The Municipality's cash and investments at June 30, 2010 are composed of: (1) demand deposits in commercial banks, and (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent).

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or by the Puerto Rico Government. 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 Government laws.

The Municipality follows the practice of pooling cash. At June 30, 2010, the cash are maintained in commercial banks with a balance of \$4,577,510 of which \$37,895 in the General Fund, \$2,738,195 in the Activities Center Fund, \$949,022 in the Multiuses Coliseum Fund, \$277 in the SBGP Fund, and \$852,121 in Other Governmental Funds. The balance in cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

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

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$3,212,117 that are restricted for the payment of the Municipality's debt service, as required by law, \$1,313,758 are unspent proceeds of bonds that are restricted for the construction of the Multiuses Coliseum, other \$2,053,661 for capital improvements projects, and \$1,636 is a balance of a previous bond issue available for the General Fund. Cash with Fiscal Agent of \$2,618,722 in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets and operational purposes. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of Section C20 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, custodial credit risk, interest rate risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2010:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010, the Municipality has invested only in cash in banks of \$4.6 million which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2010. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2010.

3. CASH AND INVESTMENTS (continuation)

Custodial Credit Risk

This 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 Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2010, the Municipality has balances deposited in commercial banks amounting to \$4.6 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$9.2 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2010. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2010, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2010, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2010, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

4. DUE FROM GOVERNMENTAL UNITS

As of June 30, 2010, the amount of \$91,713 corresponds to the Puerto Rico Treasury Department.

5. DEFERRED AND UNEARNED REVENUES

Governmental funds report *deferred revenue* 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	\$ -	\$ 2,230,061
Governmental Units	91,713	-
Child Care	60,928	-
SBGP	378,184	-
Total Deferred/Unearned Revenue	\$ 530,825	\$ 2,230,061

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

Due to/from Other Funds at June 30, 2010 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Major Fund	\$ 1,623,740
Activity Center Fund	General Fund	632,820
Coliseo Center Fund	General Fund	125,000
Other Major Fund	SBGP Fund	28,571
General Fund	SBGP Fund	418,631
TOTAL		\$ 2,828,762

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (continuation)

B. 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	\$ 288,396	Bond Principal and Interest Payments
Other Non Major Fund	General Fund	45,407	Budget Specific Project Funding
Activities Center	Debt Service Fund	321,384	Bond Principal and Interest Payments
General Fund	Other Major Fund	75,621	Budget Specific Project Funding
General Fund	Other Governmental Fund	<u>755,256</u>	Budget Specific Project Funding
		<u>\$1,486,064</u>	

7. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2010, balance due to other governmental units of the General Fund for services rendered to the Municipality (\$116,041) consists of AEELA (\$7,152); Water and Sewer Authority (\$14,795); Retirement System Administration (\$63,810); and Puerto Rico Department of Labor and Human Resources (\$30,284).

8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2010 was as follows:

DESCRIPTION	BALANCE				BALANCE JUNE 30, 2010
	JULY 1, 2009	RECLASSIFICATION	INCREASE	DECREASE	
Non-Depreciable Capital Assets:					
Land	\$ 10,370,821	\$ -	\$ 2,273,672	\$ (342)	\$ 12,644,151
Construction in Progress	<u>4,526,854</u>	<u>-</u>	<u>3,877,864</u>	<u>-</u>	<u>8,404,718</u>
Total Non-Depreciable Capital Assets	<u>14,897,675</u>	<u>-</u>	<u>6,151,536</u>	<u>(342)</u>	<u>21,048,869</u>
Depreciable Capital Assets:					
Buildings	16,270,727	-	-	-	16,270,727
Infrastructure	5,695,373	-	-	-	5,695,373
Machinery and Equipment	1,962,877	-	179,968	(26,376)	2,116,469
Capital Lease	69,283	-	-	-	69,283
Motor Vehicles	<u>2,935,511</u>	<u>-</u>	<u>163,763</u>	<u>-</u>	<u>3,099,274</u>
Total Depreciable Capital Assets	<u>26,933,771</u>	<u>-</u>	<u>343,731</u>	<u>(26,376)</u>	<u>27,251,126</u>
Less Accumulated Depreciation:					
Buildings	(4,871,546)	-	(404,807)	-	(5,276,353)
Infrastructure	(1,199,716)	-	(148,837)	-	(1,348,553)
Machinery and Equipment	(1,515,746)	-	(181,532)	26,718	(1,670,560)
Capital Lease	(41,531)	-	(13,857)	-	(55,388)
Motor Vehicles	<u>(1,692,290)</u>	<u>-</u>	<u>(269,023)</u>	<u>-</u>	<u>(1,961,313)</u>
Total Accumulated Depreciation	<u>(9,320,829)</u>	<u>-</u>	<u>(1,018,056)</u>	<u>26,718</u>	<u>(10,312,167)</u>
Total Depreciable Capital Assets (Net)	<u>17,612,942</u>	<u>-</u>	<u>(674,325)</u>	<u>342</u>	<u>16,938,959</u>
CAPITAL ASSETS, NET	<u>\$ 32,510,617</u>	<u>\$ -</u>	<u>\$ 5,477,211</u>	<u>\$ -</u>	<u>\$ 37,987,828</u>

8. CAPITAL ASSETS (continuation)

The Municipality received various parcels of land from its citizens as unrestricted donations and contributions totaling \$2,273,672 in fiscal year 2009-2010, most of which will be converted into municipal roads or are already paved to be designated as one. The Municipality provides maintenance to these assets and will assure free and safe access to all municipal residents. They are recorded in the financial statements based on their fair market value.

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

	AMOUNT
Mayor and Municipal Legislature	\$ 305,016
General Government	62,340
Public Safety	122,006
Public Works	254,180
Culture and Recreation	81,338
Human Services and Welfare	132,173
Urban Development	61,003
Total Depreciation Expenses	\$ 1,018,056

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).

During January 2010, the Municipality issued general obligation bonds of 2010 in the amount of \$2,235,000 for the construction of various capital projects. The principal and interest at 5.00% for the first installment, and 7.50% for the remaining installments are payable semi-annually ranging from \$30,000 to \$185,000 on the 1st days of January and July of each year through July 2034.

General and special obligations bonds as of June 30, 2010, are comprised of the following individual issues:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
General Obligation Bonds - Property Taxes			
\$1,525,000, Series 1997 - General Construction	2021	8.00%	\$ 1,070,000
\$575,000, Series 1996 - General Construction	2015	8.00%	280,000
\$4,025,000, Series 2003 - General Construction	2027	8.00%	3,435,000
\$2,015,000, Series 2005 - General Construction	2030	3.27% to 5.00%	1,500,000
\$1,500,000, Series 2004 - General Construction	2030	3.27% to 5.00%	1,390,000
\$555,000, Series 2004 - General Construction	2019	3.27% to 5.00%	175,000
\$1,115,000, Series 2007-08 - General Construction	2012	3.93% to 7.50%	720,000
\$2,795,000, Series 2008-09 - General Construction	2033	5.40% to 7.50%	2,760,000
\$2,150,000, Series 2008-09 - General Construction	2033	5.40% to 7.50%	2,120,000
\$1,486,000, Series 2008-09 - Operation	2012	4.75% to 7.50%	1,381,000
\$2,235,000, Series 2010 - General Construction	2034	5.00% to 7.50%	2,235,000
Total General Obligations Bonds			17,066,000
Special Obligation Bonds - General Revenues			
\$1,915,000, Series 2004 - Operation	2024	6.00%	1,525,000
Special Obligation Bonds - Section 108 (HUD)			
\$6,000,000, Series 2006 - General Construction	2026	4.96% to 5.77%	6,000,000
Special Obligation Bonds - Sales and Usage Taxes			
\$1,175,000, Series 2008 - General Construction	2032	5.40% to 7.50%	1,150,000
\$1,006,000, Series 2009 - General Construction	2013	5.40% to 7.50%	646,000
Subtotal			1,796,000
Total Special Obligations Bonds			9,321,000
Total General and Special Obligation Bonds			\$ 26,387,000

9. GENERAL LONG-TERM DEBTS (continuation)

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2010, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

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, 2010, are as follows:

Cost	\$ 69,283
Accumulated Depreciation	\$ 55,388
Monthly Lease Payments	\$ 1,307
Residual Lease Payments	\$ -
	YEAR ENDING
	JUNE 30,
	2011
	2012
	TOTAL
	PAYMENT
	\$ 14,234
	1,307
Total Minimum Lease Payment	15,541
Less: Deferred Interest	1,702
Present Value Minimum Lease Payments	\$ 13,839

C. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

D. 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), established by MRCC with the capacity to maintaining tag number 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, 2010 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2010.

9. GENERAL LONG-TERM DEBTS (continuation)

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. Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2009	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2010	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Property Taxes -Treasury Dept	\$ 65,758	\$ -	\$ (65,758)	\$ -	\$ -	\$ -
Law Number 42 - MRCC	601,709	-	(11,862)	589,847	12,607	577,240
Law Number 146 - MRCC	285,606	-	(12,417)	273,189	12,417	260,772
LIMS - MRCC	121,676	-	(46,541)	75,135	49,352	25,783
Christmas Bonus	168,971	183,426	(168,971)	183,426	183,426	-
Capital Leases	28,073	-	(14,234)	13,839	13,839	-
Deferred Charges	-	16,500	-	16,500	-	16,500
Compensated Absences	1,432,195	212,080	(84,272)	1,560,003	814,619	745,384
TOTAL	\$ 2,703,988	\$ 412,006	\$ (404,055)	\$ 2,711,939	\$ 1,086,260	\$ 1,625,679

E. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2010:

DESCRIPTION	BALANCE JULY 1, 2009	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2010	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$ 15,626,000	\$ 2,235,000	\$ (795,000)	\$ 17,066,000	\$ 880,000	\$ 16,186,000
Special	9,781,000	-	(460,000)	9,321,000	653,000	8,668,000
Others	2,703,988	412,006	(404,055)	2,711,939	1,086,260	1,625,679
TOTAL	\$ 28,110,988	\$ 2,647,006	\$ (1,659,055)	\$ 29,098,939	\$ 2,619,260	\$ 26,479,679

F. 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.

The annual requirements to amortize the general long-term debts outstanding as of June 30, 2010 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds		Other Long-Term Obligations		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2011	\$ 880,000	\$ 591,648	\$ 653,000	\$ 513,903	\$ 1,086,260	\$ 57,044	\$ 2,619,260	\$ 1,162,595
2012	945,000	861,448	668,000	490,010	51,600	52,500	1,664,600	1,403,958
2013	915,000	861,770	694,000	453,472	26,659	50,118	1,635,659	1,365,360
2014	700,000	819,548	468,000	421,717	27,554	48,451	1,195,554	1,289,716
2015	750,000	779,447	478,000	365,218	28,505	46,728	1,256,505	1,191,393
2016-2020	4,131,000	3,144,320	2,495,000	1,537,770	159,019	205,559	6,785,019	4,887,649
2021-2025	3,070,000	2,221,179	2,570,000	801,508	193,546	151,722	5,833,546	3,174,409
2026-2030	3,370,000	1,266,929	1,095,000	185,548	240,375	85,588	4,705,375	1,538,065
2031-2035	2,305,000	353,416	200,000	19,826	898,421	12,895	3,403,421	386,137
TOTAL	\$ 17,066,000	\$ 10,899,705	\$ 9,321,000	\$ 4,788,972	\$ 2,711,939	\$ 710,605	\$ 29,098,939	\$ 16,399,282

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.

11. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market price).

The MRCC 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.

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 2010 resulted in a receivable of \$237,620 for the Debt Service Fund. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination..

The tax rate for fiscal year 2010 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 3.20% 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.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first \$150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than \$35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

11. PROPERTY TAXES (continuation)

In addition, the law 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 MRCC 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 MRCC from taxpayers. The MRCC 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 MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

12. VOLUME OF BUSINESS TAXES

The volume of business taxes 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 Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2010, the tax rates were as follows:

- a. Financial institutions and savings and loan associations – 3%
- b. Other organizations – 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.

13. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the 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 Taxes, are required to file a monthly Sales and Use Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2010, but pertaining to the current year period.

14. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction 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.

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.

16. PENSION PLAN

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government 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.

16. PENSION PLAN (continuation)

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.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for 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 services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required 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 their monthly gross salary. The Municipality is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

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 (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there 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 Government. 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.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

16. PENSION PLAN (continuation)

Annual Contribution

Total employee contributions to the above-mentioned plans during the year ended June 30, 2010, 2009 and 2008 amounted to approximately \$924,752. The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	LAW NO.447	SYSTEM 2000
2010	\$ 74,822	\$ 259,424
2009	87,618	237,958
2008	91,709	220,621

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

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

B. Federal Grants

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

18. COMMITMENTS

A. Operating Leases

The Municipality leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2010, amounted to approximately \$137,000. Management believes that the summary of the future minimum rental commitments under noncancelable equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Construction

The Municipality had commitments at June 30, 2010 of approximately \$3,958,478 for the construction, improvements, or renovation of several municipal facilities.

C. Other Commitments

At June 30, 2010, the general fund had a deficit of \$1,655,284 which will be covered with future budgetary appropriations of the general fund.

19. NET ASSETS/FUND BALANCES RESTATEMENTS

A. *Net Assets Restatements*

During the year, the Municipality adjusted the governmental net assets for unrecognized revenues and expenses. The following schedule reconciles the June 30, 2009 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2009, for Governmental Activities.

Net Assets, as Previously Reported, At June 30, 2009	\$ 18,591,815
To Adjust Long-Term Debt	<u>60,275</u>
Beginning Net Assets, as Restated, At July 1, 2009	<u>\$ 18,652,090</u>

END OF NOTES

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

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, 2010

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget
BUDGETARY FUND BALANCE (DEFICIT), JULY 1, 2009	\$ 2,981,716	\$ 2,981,716	\$ 2,981,716	\$ -
Resources (Inflows):				
Property Taxes	3,120,135	3,523,695	3,523,695	-
Volume of Business Taxes	2,746,540	2,746,540	2,458,793	(287,747)
Sales and Usage Taxes	1,552,000	1,552,000	995,281	(556,719)
Intergovernmental Revenues	5,040,463	5,040,463	5,316,130	275,667
Licenses and Permits	1,501,500	1,501,500	764,566	(736,934)
Miscellaneous	122,120	122,120	176,426	54,306
Operating Transfer In	-	-	800,663	800,663
Total Resources (Inflows)	14,082,758	14,486,318	14,035,554	(450,764)
Amounts Available for Appropriation	11,101,042	11,504,602	11,053,838	(450,764)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,853,170	2,172,695	2,000,866	171,829
General Government	5,511,770	5,767,710	6,818,186	(1,050,476)
Public Safety	1,097,095	911,793	904,448	7,345
Public Works	1,380,003	1,473,823	2,077,966	(604,143)
Culture and Recreation	931,278	845,219	931,118	(85,899)
Health and Sanitation	662,278	662,278	625,719	36,559
Human Services and Welfare	145,958	135,750	125,070	10,680
Solid Wasted Disposal	2,140,468	2,148,033	1,580,102	567,931
Capital Outlays	5,000	5,000	135,289	(130,289)
Transfer to Other Funds	355,738	364,017	364,017	-
Total Charges to Appropriations	14,082,758	14,486,318	15,562,781	(1,076,463)
BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2010	\$ (2,981,716)	\$ (2,981,716)	\$ (4,508,943)	\$ (1,527,227)

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 43)	\$ 11,053,838
Difference – Budget to GAAP:	
Transfers from other funds are budgetary resources but are not revenues for financial reporting purposes	800,663
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>2,981,716</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 17)	<u>\$ 13,234,891</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 43)	\$ 15,562,781
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(1,203,991)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	636,075
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(364,017)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 17)	<u>\$ 14,630,848</u>

END OF THIS SECTION

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2010

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through State – Administration for the Childhood Care and Integral Development:			
Child and Adult Care Food Program	10.558	CCC 193	\$ 47,736
U.S. Department of Housing and Urban Development:			
Section 108 Loan Guarantees	14.248		<u>5,076</u>
Section 8 Housing Choice Voucher	14.871		<u>622,523</u>
Pass-Through State – Office of the Commissioner of Municipal Affairs			
ARRA – Homeless Prevention and Rapid Rehousing Program .	14.257	2010-000218	<u>63,481</u>
Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program) (Cluster)	14.228	2010-003534	822,236
ARRA – Community Development Block Grants/ States Program and Non Entitlements Grants in Hawaii (Cluster)	14.255	2010-003235	<u>245,000</u>
Subtotal Community Development Block Grant (Cluster)			<u>1,067,236</u>
Total U.S. Department of Housing and Urban Development..			<u>1,758,316</u>
U. S. Department of Transportation:			
ARRA – Federal Transit – Capital Investment Grants (Cluster) ...	20.500		55,400
Federal Transit – Capital Investment Grants (Cluster)	20.500		<u>187,388</u>
Subtotal Federal Transit – Capital Investment Grants (Cluster)			<u>242,788</u>
State Traffic Information System Improvements Grants	20.610		<u>2,466</u>
Total U.S. Department of Transportation			<u>245,254</u>
U. S. Department of Energy:			
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		<u>8,891</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 (Cluster)	93.575	2010-000073	524,299
ARRA – Child Care and Development Block Program (Cluster)	93.713	2010-000393	<u>7,995</u>
Subtotal Child Care and Development Block Program (Cluster)			<u>532,294</u>
Total U.S. Department of Health and Human Services			<u>532,294</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>2,592,491</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$2,592,491</u>
U. S. Department of Homeland Security:			
Pass-Through Office of the Governor Authorized Representative:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1798	122,229
Homeland Security Grant Program	97.067	2009-SS-T9-0091	<u>89,759</u>
Total U.S. Department of Homeland Security			<u>211,988</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,804,479</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) 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 Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **Municipality**, it is not intended to and does not present the financial position, or change in net assets of the **Municipality**.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

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

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the **Municipality's** Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Fund as follows: SBGP – \$1,067,236 and Other Governmental Funds – \$1,597,047.

END OF NOTES

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

Honorable Mayor and 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, 2010, which collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements and have issued our report thereon dated March 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

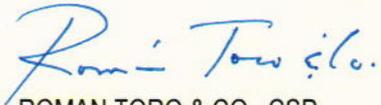
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2010-III-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2010-III-1, 2010-III-2, 2010-III-3, 2010-III-4, 2010-III-5, and 2010-III-6.

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
March 3, 2011

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the original of this report

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

Honorable Mayor and 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, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 2010-III-1, 2010-III-2, 2010-III-3, 2010-III-4, 2010-III-5, and 2010-III-6.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-III-1 and 2010-III-2 to be material weaknesses.

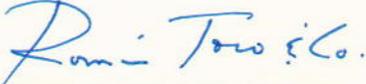
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2010-III-3, 2010-III-4, 2010-III-5, and 2010-III-6 to be significant deficiencies.

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, 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, 2010, and have issued our report thereon dated March 3, 2011. 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
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
March 3, 2011

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

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:

- 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:

- 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; 14.255	State Block Grant Program (ARRA) (Cluster)
14.871	Section 8 Housing Choice Vouchers
20.500	Federal Transit – Capital Investment Grants (ARRA) (Cluster)
93.575; 93.713	Child Care and Development Block Grant (ARRA) (Cluster)

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

Auditee qualified as low-risk auditee? Yes No

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINANCIAL STATEMENTS FINDINGS

2010-II-1

Type of finding: Financial statement.
Situation: Significant deficiency, compliance over local regulations.
Federal Program: None.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4
Questioned Costs: Not applicable.

Condition:

The Municipality issued checks without the required authorization and signature from the Pre-Intervention personnel.

Context:

During our tests of disbursements, we found 24 checks for a total disbursed amount of \$2,507,284 to contractors when the disbursement voucher authorizing the expenditure was not signed and approved by the Municipality's pre-intervention personnel, as required by local regulations. The pre-intervention function reviews disbursements to detect noncompliance (state, local, and federal), accounting, documentation, and financial issues before the disbursement funds is actually made, in order to prevent noncompliance, errors, and/or fraud. The checks were for construction activities of various funds and programs, however 86% of the disbursed amounts were for a single contractor.

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 each contractor's compliance with certain contract clauses and local regulations, including, but not limited to, the provision of photographs of the work performed, the payment of local construction excise taxes, and certifications of local government agencies. 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.

Auditor's 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.

Views of responsible officials and corrective actions:

The Finance Director takes the necessary actions to assure that the Municipality doesn't disburse any funds without the required authorizations and signatures.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-III-1

Type of finding: Federal Award.

Situation: Material weakness in compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Eligibility and Reporting.

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

Questioned Costs: Not determined.

Condition:

The Municipality performed annual reexamination procedures after the expiration of voucher terms for various participants, while submitting HUD Form 50058 at the effective date as if the reexaminations were completed on time. Additionally, several reexaminations only contained HUD Form 50058 as evidence of an annual reexamination performed, with no other supporting evidence to substantiate the reexamination information reported in such form.

Context:

Out of 40 participant files observed, we found eight participant files which had one, more than one, or all documents supporting the reexamination and benefits determination with dates subsequent to the reexamination effective date reported in HUD Form 50058. Such documents with subsequent dates included first notification reminders for reexamination, third-party income evidence, participant certifications, and enterprise income verification reports, among others. Of those files, we found certain cases where HUD Form 50058 were marked as annual reexamination and submitted at or before the effective date, while another HUD Form 50058 was submitted once the necessary reexamination documents were obtained as either an interim change in income or a correction of an error.

Additionally, out of 40 participant files observed, we found three participant files whose annual reexamination documentation consisted of only the HUD Form 50058 submitted, and no other documentation, including third-party evidence, supporting the reexamination.

Criteria:

The PHA must conduct an annual reexamination of a tenant's eligibility and family income for continued participation in the program, and must properly document the income, assets, and exemptions considered as annual income, as well as other qualifying factors, at or before the reexamination date (24 CFR 5.609 Annual income; 24 CFR 982.516 Family income and composition: Regular and interim examinations; 24 CFR 982.158 Program accounts and records; HUD Handbook 7420.10g Chapter 12: Reexaminations and Chapter 5: Eligibility and Denial of Assistance).

Cause:

The supervision of the program was not adequate in the last year and until a new director was hired and put in place in March 2010. The program's staff did not realize that these cases were due for reexamination until the deadlines were either very close or had passed; however, they did not alert the higher management of the Municipality for preventive or corrective actions on time until the replacement of the director.

Effect:

Notification reminders were sent late to participants (see finding 2010-III-3), providing limited time for participants to prepare themselves for their reexamination, resulting in late reexamination procedures and problems with eligibility verification, determination, and documentation (see finding 2010-III-2).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-1 (Continued)

Auditor's recommendation:

The Municipality should implement controls to assure that cases are timely reexamined annually, and that upcoming reexaminations are noted timely to provide for early notification and reexamination procedures. A record of all vouchers with their reexamination due dates should be distributed for all employees, in order to assure a fully-oriented workforce. The Municipality should encourage program employees to report any irregularities, including lax administration or supervision, to its Internal Audit Department or other management offices.

Views of responsible officials and corrective actions:

The program's director retired in February 2010 and was replaced during the year, with 2 additional staff members also replaced. The new program director is fully aware of this situation and has implemented new controls to correct the situations identified, including a record of all reexamination deadlines, to make sure that notifications are sent on time 90-120 days before reexamination date, that all reexaminations are performed on time, and that all documentation is included in the participant files. The new director ordered the reorganization of documents within participant files in an effort to make each reexamination easier to document and subsequently audit, and reducing the risk of misplacement. Missing documentation has been solicited from participants to complete any that are missing in the files.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-2

Type of finding: Federal Award.

Situation: Material weakness in internal controls; compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Eligibility and Reporting.

Prior-Year(s) Audit Finding(s): 2009-III-1.

Questioned Costs: Not determined.

Condition:

The Municipality did not correctly obtain necessary documentation nor properly record required information demonstrating the eligibility of participating tenants for the Section 8 voucher program.

Context:

Out of 40 participant files observed, we found the following deficiencies in the documentation of participant files:

1. Eight participant files had various documentation and reporting issued concerning with evidence and calculation of family income, which directly affected the determination of assistance to the family, detailed as follows:
 - a. Two participant files without documented evidence from the PR Labor Department about whether the participants were receiving unemployment benefits (income),
 - b. Two participant files which reported family income in Form 50058 but lacked third-party documented evidence,
 - c. Two participant files whose family income reported in Form 50058 did not match with the third-party evidence documented in file, and
 - d. Two participant files containing third-party evidence of family income which was not considered in the determination of assistance and not reported in Form 50058.
2. One participant family's composition changed from 3 to 1; however, HAP assistance was determined based on the old composition,
3. Three participant files did not include an authorization for release of information signed by the tenant for the reexamination period, while two participant files included the authorization signed but not dated, whose effectiveness could not be determined as to which period it applied,
4. Five participant files did not include a signed declaration of citizenship status from one or more family members of the participating family,
5. Two participant files did not include evidence of participants' dependents being eligible students justifying deductions,
6. Two participant files which did not include evidence of family members' social security numbers reported on Form 50058,
7. Three participant files which did not document evidence of all required family members' penal records,
8. One participant file which did not include evidence of family members' birth certificates,
9. Four participant files whose family member birth dates reported on Form 50058 did not match their respective birth certificate documented in file,
10. One participant file in which family member's social security number reported on Form 50058 did not match their respective social security card, and
11. One participant file whose family photo did not represent the family composition reported on Form 50058.

Criteria:

Generally, the Municipality must obtain and document third party verification, or must document in the file why third party verification was not available, regarding the verification of the reported family annual income, citizenship status, and other factors that affect the determination of eligibility and adjusted income, and other information reported during the reexamination process, as per 24 CFR 5.659, and must be organized to allow for a speedy and effective audit, as required by 24 CFR 982.158.

As established in HUD Handbook 7420.10G, specific program requirements include documenting the timely notification reminder to families, obtaining the HUD information consent forms signed and dated, obtaining other certifications at the time of move-in certification and annual recertification, documenting verification of birth certificates and dates, and the adequate documentation of income and citizenship status (see sections 5.2, 5.3, 12.4 and Exhibit 5-5).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-2, continued

Cause:

The supervision of the program was not adequate in the last year and until a new director was hired and put in place in March 2010. The program's staff did not realize that these cases were due for reexamination until the deadlines were either very close or had passed; however, they did not alert the higher management of the Municipality for preventive or corrective actions on time until the replacement of the director.

Effect:

Notification reminders were sent late to participants (see finding 2010-III-3), providing limited time for participants to prepare themselves for their reexamination, resulting in late reexamination procedures (see finding 2010-III-1) and problems with eligibility verification, determination, and documentation.

Auditor's recommendation:

The Municipality should implement controls to assure that cases are timely reexamined annually, and that upcoming reexaminations are noted timely to provide for early notification and reexamination procedures. A record of all vouchers with their reexamination due dates should be distributed for all employees, in order to assure a fully-oriented workforce. The Municipality should encourage program employees to report any irregularities, including lax administration or supervision, to its Internal Audit Department or other management offices.

Views of responsible officials and corrective actions:

The program's director retired in February 2010 and was replaced during the year, with 2 additional staff members also replaced. The new program director is fully aware of this situation and has implemented new controls to correct the situations identified, including a record of all reexamination deadlines, to make sure that notifications are sent on time 90-120 days before reexamination date, that all reexaminations are performed on time, and that all documentation is included in the participant files. The new director ordered the reorganization of documents within participant files in an effort to make each reexamination easier to document and subsequently audit, and reducing the risk of misplacement. Missing documentation has been solicited from participants to complete any that are missing in the files.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-3

Type of finding: Federal Award.

Situation: Significant deficiency in internal controls; compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Eligibility.

Prior-Year(s) Audit Finding(s): 2009-III-2.

Questioned Costs: Not determined.

Condition:

The Municipality did not notify tenants of their upcoming annual reexaminations as required by HUD guidelines.

Context:

Out of forty files observed, we found three participant files did not include evidence that notifications were sent reminding and citing the participants for reexamination before the effective date of the reexamination, two participant files documented the first notifications to the participants were prepared and sent within 17 and 71 days of the required effective date of their respective reexaminations, and two participant files documented the first notifications which were sent after the reexamination deadline had passed.

Criteria:

The Municipality should begin reexamination procedures 90 to 120 days before the date re-examination results are to take effect, with families being notified in writing of the date, location and other details of the reexamination appointment, as required by HUD Handbook 7420.10G (rev. April 2001), Chapter 12, 12.4 Reexamination Procedures.

Cause:

The supervision of the program was not adequate in the last year and until a new director was hired and put in place in March 2010. The program's staff did not realize that these cases were due for reexamination until the deadlines were either very close or had passed; however, they did not alert the higher management of the Municipality for preventive or corrective actions on time until the replacement of the director.

Effect:

Notification reminders were sent late to participants, providing limited time for participants to prepare themselves for their reexamination, resulting in late reexamination procedures (see finding 2010-III-1) and problems with eligibility verification, determination, and documentation (see finding 2010-III-2).

Auditor's recommendation:

The Municipality should implement controls to assure that cases are timely reexamined annually, and that upcoming reexaminations are noted timely to provide for early notification and reexamination procedures. A record of all vouchers with their reexamination due dates should be distributed for all employees, in order to assure a fully-oriented workforce. The Municipality should encourage program employees to report any irregularities, including lax administration or supervision, to its Internal Audit Department or other management offices.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-3

Views of responsible officials and corrective actions:

The program's director retired in February 2010 was replaced during the year, with 2 additional staff members also replaced. The new program director is fully aware of this situation and has implemented new controls to correct the situations identified, including a record of all reexamination deadlines, to make sure that notifications are sent on time 90-120 days before reexamination date, that all reexaminations are performed on time, and that all documentation is included in the participant files. The new director ordered the reorganization of documents within participant files in an effort to make each reexamination easier to document and subsequently audit, and reducing the risk of misplacement. Missing documentation has been solicited from participants to complete any that are missing in the files.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-4

Type of finding: Federal Award.

Situation: Significant deficiency in internal controls; compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Special Tests and Provisions – Utility Allowance.

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

Questioned Costs: Not determined.

Condition:

The Municipality did not annually review its schedule of utility allowance as required by program requirements.

Context:

The Municipality's Section 8 program did not perform annual review of its utility allowance schedules, relying on the most recent available study to determine each participant's allowance. It did not also verify changes in market prices in utility costs to determine whether they fluctuated more than 10%, which would also require a revision of the schedule. The schedule was revised on December 2009, and entered into effect on April 2010.

Criteria:

4 CFR 982.517(c), Revisions of utility allowance schedule, and requires that the Municipality must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there PHAs been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised.

Cause:

The Municipality did not thoroughly review the HUD guidelines regarding the requirements of utility allowances, and instruct its personnel to review the utility allowance determinations annually. Additionally, the supervision of the program was not adequate in the last year and until a new director was hired and put in place in March 2010.

Effect:

The Municipality compensated participants with utility allowances which were not actualized with current utility costs.

Auditor's recommendation:

The Municipality should impart instructions to its staff regarding these HUD guidelines, and to constantly review authoritative guidance in order to assure that eligibility procedures and determinations are performed in full compliance with applicable regulations. It should implement controls to assure that the utility allowance schedules are reviewed and actualized annually or when changes of 10% or more in utility costs are detected.

Views of responsible officials and corrective actions:

The Section 8 Staff reviewed its schedule of utility allowance and on April 2010 actualized it to current market cost. Additionally, the program changed virtually its entire staff, including the director, the participant case specialist, and the inspector.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-III-5

Type of finding: Federal Award.

Situation: Significant deficiency in internal controls; compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Special Tests and Provisions – Housing Assistance Payments.

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

Questioned Costs: Not determined.

Condition:

The Municipality did not maintain an adequate contractual agreement for HAP with participants for continued participation.

Context:

Out of forty files observed, four participant files with an annual reexamination for which no signed HAP contract was found in file and another four participant files for which the latest HAP contract was for a term matching the Municipality's fiscal year and not the lease term.

While some participant files contained signed Form HUD-52641 HAP contract, eight participant files observed (including seven of the eight mentioned above) contained a contract designed by the Municipality's Secretary Department, and changes in terms were documented with an amendment also designed by the Municipality, and not the Form HUD-52641.

Criteria:

HUD Handbook 7420.10, Chapter 11: Housing Assistance Payments (HAP) Contracts states that a HAP contract is required for each annual year, unless no changes in rent, utilities, family composition, or dwelling unit, and that its term should match the term of the lease and voucher. Form HUD-52641 is the HAP contract for the housing choice voucher program, and HUD requires PHAs to use this form. It cannot be modified.

Cause:

The supervision of the program was not adequate in the last year and until a new director was hired and put in place in March 2010. The program's staff did not realize that these cases were due for reexamination until the deadlines were either very close or had passed; however, they did not alert the higher management of the Municipality for preventive or corrective actions on time until the replacement of the director.

Effect:

The Municipality did not maintain a contractual agreement regarding the benefits provided with the participants, limiting any recourse the Municipality may need to enforce compliance by participants.

Auditor's recommendation:

The Municipality should implement controls to assure that cases are timely reexamined annually, and all continued participation must be official by signing the HAP contract by all parties. The Municipality should use the HUD-designed HAP contract in order to assure the contract contains all required information.

Views of responsible officials and corrective actions:

The program's director retired in February 2010 and was replaced during the year, with two additional staff members also replaced. The new program director is fully aware of this situation and has implemented new controls to correct the situations identified, including a record of all reexamination deadlines, to make sure that notifications are sent on time 90-120 days before reexamination date, that all reexaminations are performed on time, and that all documentation is included in the participant files. The new director ordered the reorganization of documents within participant files in an effort to make each reexamination easier to document and subsequently audit, and reducing the risk of misplacement. Missing documentation has been solicited from participants to complete any that are missing in the files.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-III-6

Type of finding: Federal Award Finding.

Situation: Significant deficiency.

Federal Program: Community Development Block Grant/States Program (SBGP) Cluster (14.228; 14;255).

Compliance Requirements: Local regulations.

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

Questioned Costs: None.

Condition:

Finding 2010-II-2 is also considered a federal award finding to be reported under OMB Circular A-133. During our procedures over expenditures and disbursements, we found that the Municipality disbursed 24 checks for a total of \$2,507,284 to contractors when the disbursement voucher authorizing the expenditure was not signed and approved by the Municipality's pre-intervention personnel, as required by local regulations. Of these 24 checks, 5 checks totaling \$405,682 were for SBGP activities, while 2 checks totaling \$245,000 were for SBGP-ARRA activities.

For more information, see Finding 2010-II-2.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
(1) Audit Findings that have been fully corrected or not noted during our audit:					
2008, 2009	2008-7, 2009-III-4	Disbursement of checks for payment of the federally-subsidized Section 108 loan balance with checks made out to "Cash" as the payee, leaving an ambiguity which posed significant risk of loss due to misplacement or theft.	14.248	None.	The Municipality changed the manner it paid the principal and interest installments by making them out to the name of the bank which performs the wire transfer of the actual payment.
(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 in our audit. See finding 2010-III-6 and 2010-II-2.
2009	2009-III-1	The Municipality did not properly document required information for participants of the Section 8 program.	14.871	None.	This situation was noted in our audit. See finding 2010-III-2.
2009	2009-III-2	The Municipality did not properly notify tenants of their upcoming annual reexaminations as required by HUD guidelines.	14.871	None.	This situation was noted in our audit. See finding 2010-III-3.
2009	2009-III-3	The Municipality did not annually review its schedule of utility allowance as required by program requirements.	14.871	None.	This situation was noted in our audit. See finding 2010-III-4.

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

NONE.

(4) Audit findings are no longer valid:

NONE.

END OF SCHEDULE