

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

**MUNICIPIO DE SAN LORENZO  
AUDITORÍA 2011-2012  
30 DE JUNIO DE 2012**



**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2012**



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**MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

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**FISCAL YEAR ENDED JUNE 30, 2012**

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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, 2012, 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.

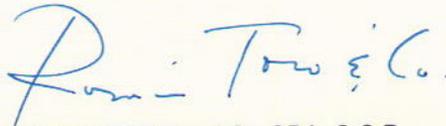
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Lorenzo, Puerto Rico, as of June 30, 2012, and 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 21, 2013, on our consideration of the Municipality of San Lorenzo, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of 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.

  
ROMAN TORO & CO., CPA, C.S.P.  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 21, 2013

Stamp #E46242 was affixed to  
the original of this report

**MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis of the Municipality of San Lorenzo, Puerto Rico (Municipality)'s financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2012. 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 2012 by \$24,106,451 (net assets).
- Revenues increased by \$2,520,786 (10%) and expenses increased by \$3,409,914 (14%) in comparison with year 2011, as restated.
- Net change in net assets amounted to \$1,506,371, a decrease of \$889,128 with respect to prior year (2011) 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:

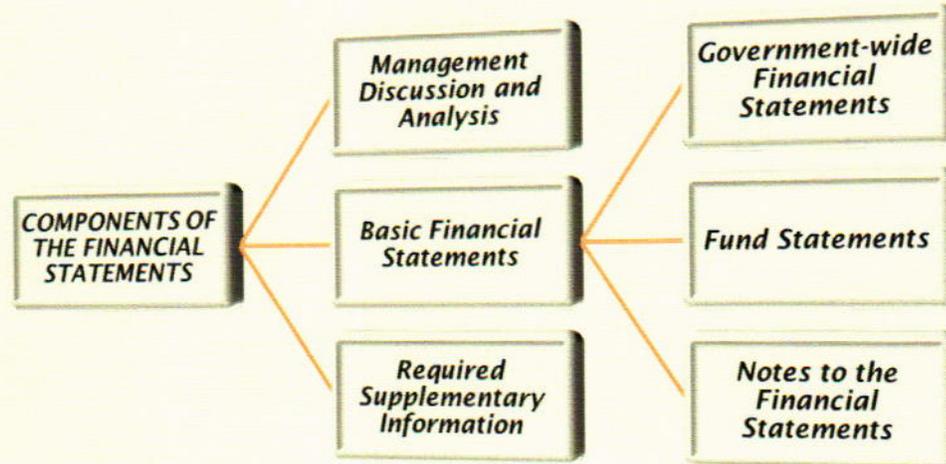
- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$4,273,607, a decrease of \$6,322,605 in comparison with the prior year.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of (\$746,628) and an unassigned (deficit) fund balance of (\$2,998,994). Unassigned fund balances (deficit) increased by (\$445,452) from prior year.

### General Financial Highlights

- The investment in net capital assets as of June 30, 2012 was \$26,450,002 (net of related debt).
- Long-term debt general and special obligation bonds increased to \$32,601,000, approximately 4% with respect to prior year balance for the issuance of general and special bonds for \$3,191,000 for the construction of multiple projects, and acquisition of equipment.
- Other long term debts increases and net reductions from payments amounted to \$522,832 and \$355,359, respectively.
- On a budgetary basis, actual expenditures exceeded actual revenues and transfers by (\$3,274,819).
- Revenues increase was mainly in operating grants and contributions \$1,124,356.

## 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**

Governmental funds 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Municipality's near-term financing requirements.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The Municipality implemented **GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions** effective with the June 30, 2012 financial statements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The June 30, 2011 fund balances were reclassified for comparative purposes.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$4,273,607. Approximately (\$5.2) million of this isn't available for spending at the government's discretion [Unassigned Fund Balance (Deficit)]. The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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**

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 6% with respect to prior year as restated. The most significant change was an increase of the unrestricted deficit by (\$3,472,122). Also, an increase in capital assets by \$9,393,283 (net of depreciation), with an increase in long-term debt by \$3,191,000, that should be used principally for the construction of various projects and to finance the acquisition of equipment.

The following table presents a summary of the Statements of Net Assets as of June 30, 2012 and 2011:

<b>Commonwealth of Puerto Rico</b>		
<b>Municipality of San Lorenzo, Puerto Rico</b>		
<b>Statement of Net Assets</b>		
<b>As of June 30,</b>		
	<b>2012</b>	<b>2011</b>
Current and Non-Current Assets	\$ 11,435,731	\$ 16,964,258
Capital Assets	53,069,960	43,676,677
<b>Total Assets</b>	<b>64,505,691</b>	<b>60,640,935</b>
Current Liabilities	2,509,801	1,783,556
Deferred Revenues	2,375,105	2,128,438
Long-Term Liabilities	35,514,334	34,128,861
<b>Total Liabilities</b>	<b>40,399,240</b>	<b>38,040,855</b>
Net Assets:		
Investment in Capital Assets, Net of Related Debt	26,450,002	21,184,834
Restricted	4,070,258	4,356,933
Unrestricted (Deficit)	(6,413,809)	(2,941,687)
<b>Total Net Assets</b>	<b>\$ 24,106,451</b>	<b>\$ 22,600,080</b>

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$26,450,002; total capital assets (\$65,479,242) less accumulated depreciation (\$12,409,282) and less any related outstanding debt (\$26,619,958) 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, 2012 the Municipality presented unrestricted (deficit) net assets of (\$6,413,809). This balance was affected by long term obligations such as compensated absences \$1,842,683 and other debts for the amount of \$1,070,651 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, 2012 and 2011:

With respect to prior year, revenues decreased by approximately \$2.5 million or 10%, principally on operating grants and contributions.

Expenses increased 6% or \$1.5 million in comparison with 2011. Significant decreases were registered on urban development and public safety.

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Program Revenues:		
Changes for Services	\$ 5,158	\$ 309,562
Operating Grants and Contributions	6,486,366	5,362,010
Capital Grants and Contributions	9,495	25,256
General Revenues:		
Property Taxes	5,247,850	5,017,069
Volume of Business Taxes	2,628,853	2,578,635
Sales and Usage Taxes	1,878,316	1,629,221
Construction Excise Taxes	767,228	898,203
Intergovernmental	6,223,577	5,966,628
Other General Revenues	733,555	627,972
Donated Capital Assets	2,522,548	1,567,604
<b>Total Revenues</b>	<b><u>26,502,946</u></b>	<b><u>23,982,160</u></b>
<b>Expenses:</b>		
General Administration	13,364,079	10,363,977
Public Safety	975,912	1,085,585
Public Works	3,196,610	1,892,241
Culture and Recreation	1,060,580	938,848
Health and Sanitation	624,038	624,038
Solid Wasted Disposal	1,998,960	1,695,840
Human Services and Welfare	1,531,911	777,940
Urban Development	963,345	2,829,271
Interest Costs	1,281,140	1,378,921
<b>Total Expenses</b>	<b><u>24,996,575</u></b>	<b><u>21,586,661</u></b>
<b>Changes in Net Assets</b>	<b><u>1,506,371</u></b>	<b><u>2,395,499</u></b>
Net Assets-Beginning, as Restated	22,600,080	20,204,581
<b>Net Assets-Ending</b>	<b><u>\$ 24,106,451</u></b>	<b><u>\$ 22,600,080</u></b>

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

FIGURE 1

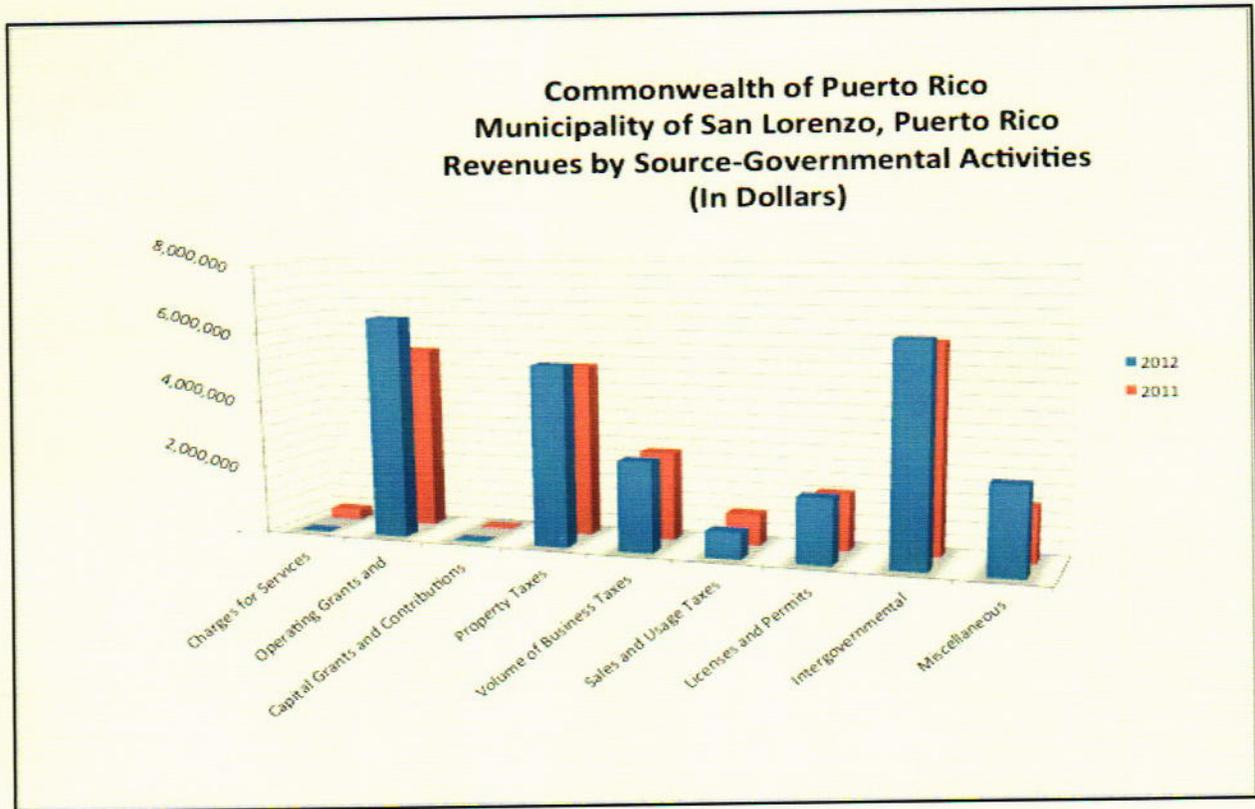
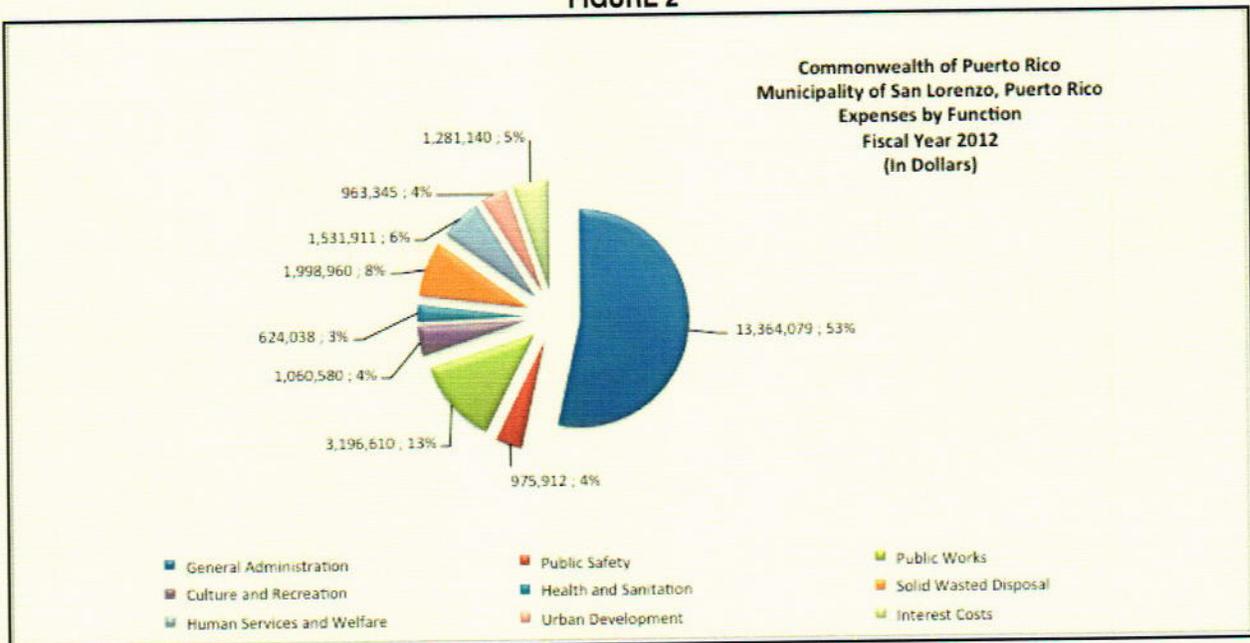


Figure 2 presents expenses by function of the governmental activities during the fiscal year 2011-2012:

FIGURE 2



Approximately 24.2% of the Municipality's revenues came from intergovernmental, 20.4% from property taxes, 25.2% from grants and contributions, and 30.3% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 53.5%, public works with 12.8%, solid waste disposal with 8.0%, and human services and welfare with 6.1%. Program revenues of the Municipality covered 26% 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):

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
General Administration	\$ 13,364,079	\$ 10,363,977	\$ 10,560,161	\$ 8,582,235
Public Safety	975,912	1,085,585	975,912	1,085,585
Public Works	3,196,610	1,892,241	3,188,357	1,869,667
Culture and Recreation	1,060,580	938,848	1,060,580	938,848
Solid Waste Disposal	1,998,960	1,695,840	1,998,960	1,695,840
Human Services and Welfare	1,531,911	777,940	(1,353,871)	(1,177,755)
Urban Development	963,345	2,829,271	160,279	892,454
Others	1,905,178	2,002,959	1,905,178	2,002,959
<b>Total</b>	<b>\$ 24,996,575</b>	<b>\$ 21,586,661</b>	<b>\$ 18,495,556</b>	<b>\$ 15,889,833</b>

Some of the cost of governmental activities in 2012 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$6,495,861). The \$21,586,661 net cost of services was substantially covered by other general revenues including property, volume of business, sales and usage, and construction excise 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. Municipality implemented **GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions** effective with the June 30, 2012 financial statements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The June 30, 2011 fund balances were reclassified as per new standard for comparative purposes.

Table 4

Commonwealth of Puerto Rico  
Municipality of San Lorenzo, Puerto Rico  
Fund Balance  
As of June 30,

	2012	2011
<b>Fund Balances:</b>		
Nonexpendable	\$ -	\$ -
Restricted	9,481,023	13,856,118
Committed	-	940,751
Assigned	-	265,971
Unassigned	(5,207,416)	(5,271,736)
<b>Total</b>	<b>\$ 4,273,607</b>	<b>\$ 9,791,104</b>

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$4.2 million. Of this amount (\$5,207,416) isn't available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed. For the fiscal year ended June 30, 2011, the governmental funds reported combined ending fund balances of \$10.6 million, with a net decrease of (\$6,322,605) million in comparison with the current year. This decrease was due primarily by new restricted funds and decrease in unassigned fund balance (deficit).

Table 5

Commonwealth of Puerto Rico  
Municipality of San Lorenzo, Puerto Rico  
General Fund  
As of June 30,

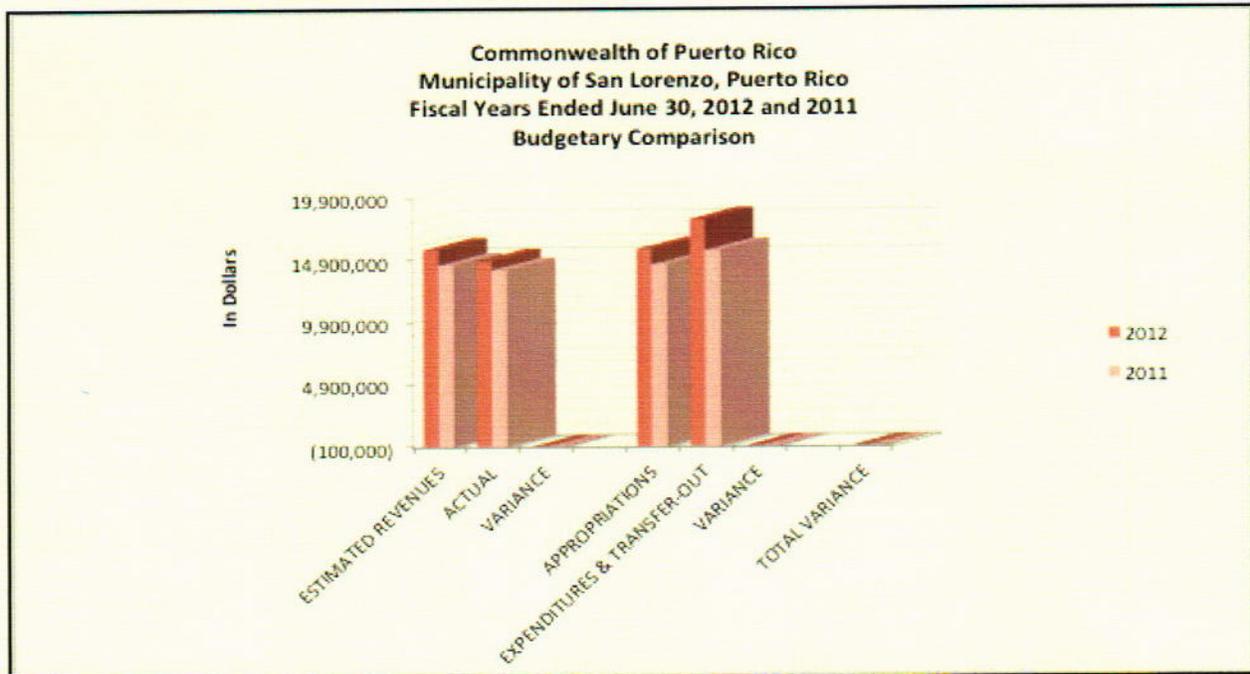
Description	2012	2011
<b>Revenues:</b>		
Property Taxes	\$ 3,275,212	\$ 3,523,695
Volume of Business Taxes	2,628,853	2,458,793
Sales and Usage Taxes	1,255,857	995,281
Intergovernmental	6,207,858	5,316,130
Construction Excise Taxes	767,228	764,566
Miscellaneous	733,555	176,426
<b>Total Revenues</b>	<b>14,868,563</b>	<b>13,234,891</b>
<b>Expenditures:</b>		
General Government	10,502,097	9,105,675
Public Safety	818,990	883,768
Public Work	1,876,919	1,287,429
Culture and Recreation	955,965	887,796
Health and Sanitation	624,038	625,719
Solid Waste Disposal	1,998,960	1,580,102
Human Services and Welfare	255,222	125,070
Urban Development	133,965	-
Capital Outlay	184,135	135,289
<b>Total Expenditures</b>	<b>17,350,291</b>	<b>14,630,848</b>
Net Transfer In (Out)	(204,900)	436,646
Proceed of Notes	1,940,000	-
<b>Net Decrease in Fund Balance</b>	<b>\$ (746,628)</b>	<b>\$ (959,311)</b>

The general fund is the operating fund of the Municipality. Unassigned fund balance (deficit) of the general fund represents approximately 100% of total ending general fund balance.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2011-2012 does not present a material difference with respect to prior year budget. During the fiscal year budget revenues were increased by \$347,416 due to a revision of original estimate of intergovernmental revenues. The Municipality does not include an amendment to the budget the positive and negative changes on others revenues, principally in volume of business taxes (\$621,147), sales and usage taxes of \$151,857, construction excise taxes (\$515,360), and \$472,081 in miscellaneous revenues. Budget expenditures were amended during the year in accordance with functions estimates (see **Figure 3** below).

**FIGURE 3**



The negative variance of (\$890,665) between revised budget and actual results was due mainly to a decrease in revenues as explained in the preceding paragraph 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 \$53,069,960 (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 \$9,393,283 or 18% from the prior year.

**Table 6**

	Governmental Activities	
	2012	2011
<b>Non-depreciable assets:</b>		
Land	\$ 16,467,128	\$ 14,211,755
Construction in Progress	16,657,440	11,689,210
<b>Depreciable assets:</b>		
Buildings	10,915,298	10,589,567
Infrastructure	5,320,778	4,197,983
Machinery and Equipment	376,631	316,502
Motor Vehicles	3,332,685	2,671,660
<b>Total</b>	<b>\$ 53,069,960</b>	<b>\$ 43,676,677</b>

The Municipality invested a total of \$10,846,733 of capital assets during the fiscal year 2011-2012 as follows:

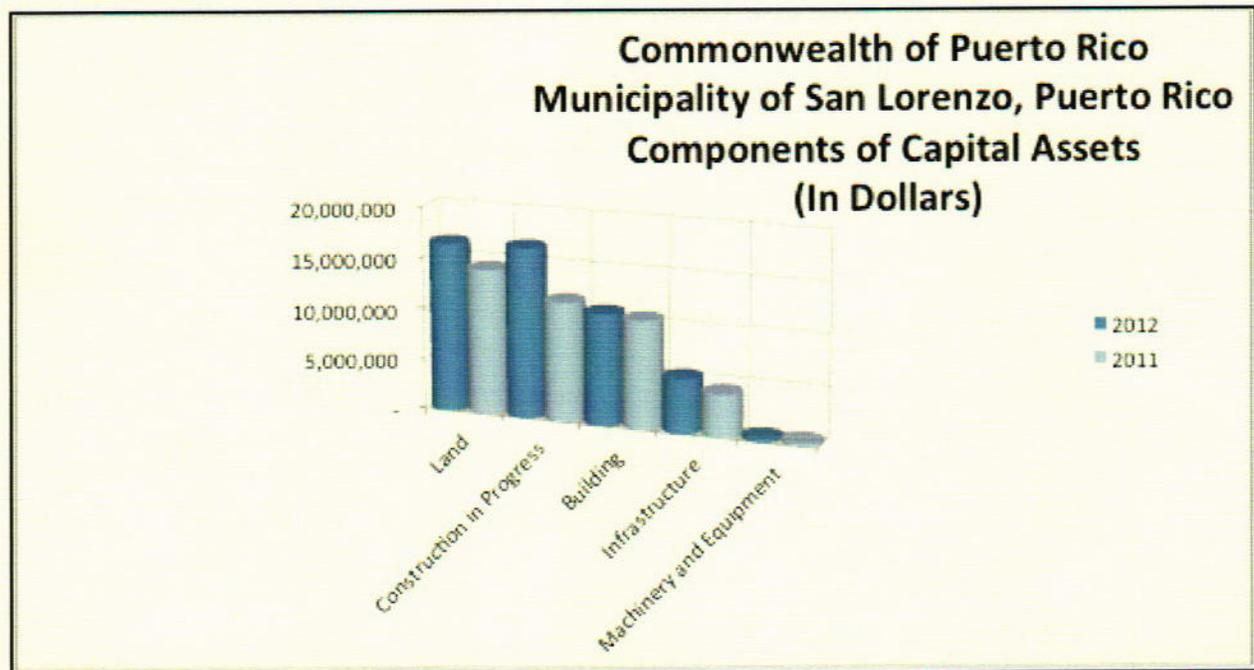
- Construction in Progress – \$4,968,230
- Acquisition of Land (Capital Contribution) – \$2,255,373
- Acquisition of Machinery and Equipment – \$236,340
- Acquisition of Motor Vehicles – \$1,348,703
- Buildings - \$756,788

Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2012.

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

Figures 4 below presents the components of capital assets during the fiscal years 2012 and 2011:

FIGURE 4



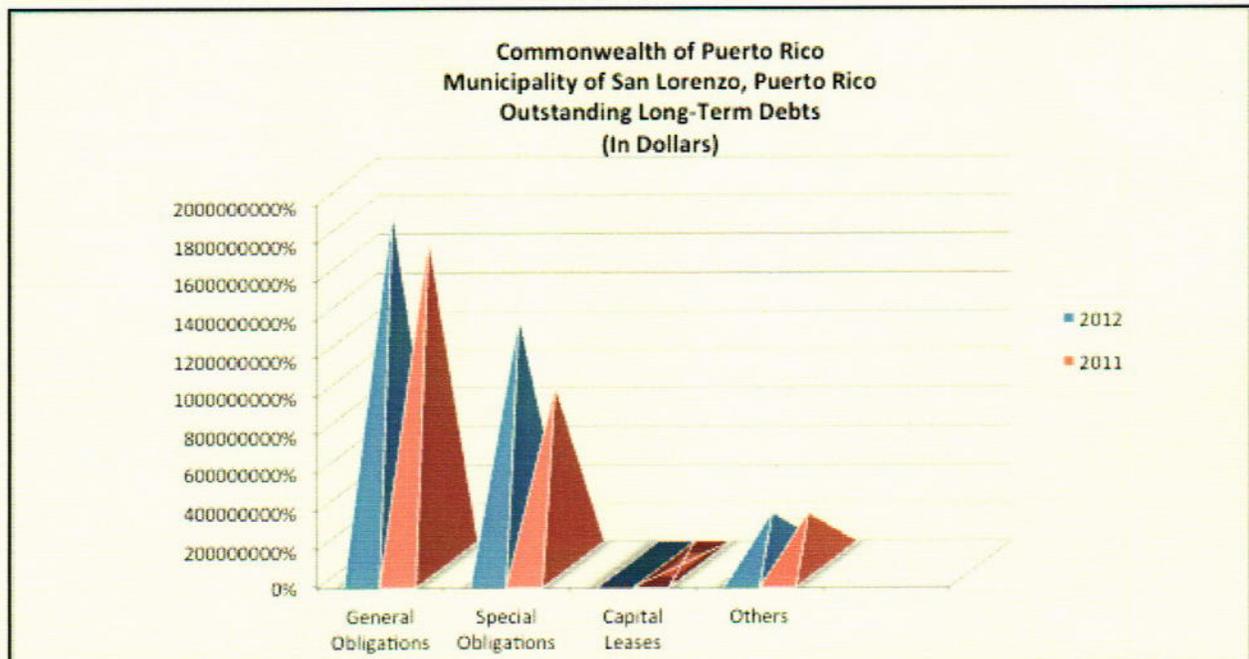
**Long-Term Debt**

At year-end, the Municipality had \$32,601,000 in general and special obligations, an increase of 4% with respect to prior year due to the issuance of \$3.2 million of general and special obligation. The following is a summary of the Municipality's outstanding debt as of June 30, 2012 and 2011:

	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
	<b>Total</b>	<b>\$ 35,514,334</b>
<b>Table 7</b>		
<b>Commonwealth of Puerto Rico</b>		
<b>Municipality of San Lorenzo, Puerto Rico</b>		
<b>Outstanding Long-Term Debt</b>		
<b>As of June 30,</b>		
General and Special Obligations	\$ 32,601,000	\$ 31,383,000
Law No. 42-MRCC	563,838	577,238
Law No. 146-MRCC	248,353	260,770
LIMS - MRCC	-	25,783
Christmas Bonus	228,360	193,493
Capital Leases	-	-
Deferred Charges	30,100	24,291
Compensated Absences	1,842,683	1,664,286

Figure 5 presents the components of long-term debts during the fiscal year 2012 and 2011:

**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 2011-2012 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 16.3%, which compares with the Commonwealth rate of 14.9%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2013 are \$18.6 million, approximately \$3.2 million more than fiscal year 2012. The Municipality expects an increase of revenues in property taxes, volume of business taxes, and intergovernmental. 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.

### AMERICAN RECOVERY AND REINVESTMENT ACT

The Municipality expended the following federal awards from the American Recovery and Reinvestment Act during fiscal year 2011-2012. These awards corresponded to fiscal year 2009-2011, which were carryforward during current year:

Federal Program	CFDA Number	Total Award	Total Expended
Federal Transit – Capital Investment Grant (Cluster) [Reconstruction of Sidewalks and Construction of ADA Ramps Along the Trolley Route of the Municipality (7.02 jobs)]	20.500	\$ 375,000	\$ 314,000
Homeless Prevention and Rapid Rehousing Program	14.257	538,391	372,622
Energy Efficiency and Conservation Block Grant Program [To install a Photovoltaic System on the City Hall Building (1.0 job)]	81.128	182,200	175,380
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	200,000	200,000
Child Care and Development Block Grant Program [To provide foods to the Head Start child (0.0 job)]	93.713	<u>34,043</u>	<u>20,098</u>
<b>Total</b>		<b><u>\$1,329,634</u></b>	<b><u>\$1,082,100</u></b>

### 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, 2012**

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS:</b>	
Cash and Investments	\$ 2,773,570
Cash with Fiscal Agent	7,365,839
Receivables (net):	
Property Taxes	30,776
Sales and Usage Taxes	96,096
Due from Governmental Units	114,180
Federal Grants	923,606
Other Receivables	<u>6,050</u>
Total Currents Assets	<u>11,310,117</u>
Deferred Charges	<u>125,614</u>
Capital Assets:	
Land, Improvement and Construction in Progress	33,124,568
Other Capital Assets [Net of Depreciation]	<u>19,945,392</u>
Total Capital Assets	<u>53,069,960</u>
<b>TOTAL ASSETS</b>	<b><u>64,505,691</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses	1,858,928
Accrued Interest	542,878
Due to Governmental Units	107,995
Deferred Revenues	2,375,105
Long-Term Liabilities:	
Due Within One Year	4,243,910
Due in More than One Year	<u>31,270,424</u>
<b>TOTAL LIABILITIES</b>	<b><u>40,399,240</u></b>
<b>NET ASSETS:</b>	
Investment in Capital Assets, Net of Related Debt	26,450,002
Restricted for:	
Capital Projects	91,710
Debt Service	3,681,357
Community Development Projects	297,191
Unrestricted (Deficit)	<u>(6,413,809)</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$24,106,451</u></b>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Charges For Services	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 2,196,990	\$ -	\$ -	\$ -	\$ (2,196,990)
General Government	11,167,089	5,158	2,798,760	-	(8,363,171)
Public Safety	975,912	-	-	-	(975,912)
Public Works	3,196,610	-	-	8,253	(3,188,357)
Culture and Recreation	1,060,580	-	-	-	(1,060,580)
Health and Sanitation	624,038	-	-	-	(624,038)
Solid Waste Disposal	1,998,960	-	-	-	(1,998,960)
Human Services and Welfare	1,531,911	-	2,885,782	-	1,353,871
Urban Development	963,345	-	801,824	1,242	(160,279)
Interest on Long-Term Debt	1,281,140	-	-	-	(1,281,140)
<b>Total Governmental Activities</b>	<b>\$24,996,575</b>	<b>\$ 5,158</b>	<b>\$6,486,366</b>	<b>\$9,495</b>	<b>(18,495,556)</b>

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	3,275,212
Property Taxes, levied for Debt Service	1,972,638
Volume of Business Taxes	2,628,853
Sales and Usage Taxes	1,878,316
Construction Excise Taxes	767,228
Intergovernmental	6,223,577
Rent	24,178
Miscellaneous	709,377
Special Item - Donated Capital Assets	2,522,548
Total General Revenues	<u>20,001,927</u>
<b>CHANGES IN NET ASSETS</b>	<b>1,506,371</b>
Net Assets, As Restated - Beginning of Year	<u>22,600,080</u>
<b>NET ASSETS - ENDING OF YEAR</b>	<b>\$24,106,451</b>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2012

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUND	SBGPFUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>							
Cash and Investment	\$ 1,187,520	\$ 957,734	\$ 230,910	\$ 32,127	\$ -	\$ 365,279	\$ 2,773,570
Cash with Fiscal Agent	1,636	-	712,942	-	4,193,459	2,457,802	7,365,839
Receivables:							
Property Taxes	-	-	-	-	30,776	-	30,776
Sales and Usage Taxes	96,096	-	-	-	-	-	96,096
Due from Governmental Units	114,180	-	-	-	-	-	114,180
Federal Grants	-	-	-	562,040	-	361,566	923,606
Due from Other Funds	704,547	1,636,790	-	8,585	-	213,411	2,563,333
Other Receivables	-	-	-	-	-	6,050	6,050
<b>Total Assets</b>	<b>\$ 2,103,979</b>	<b>\$ 2,594,524</b>	<b>\$ 943,852</b>	<b>\$ 602,752</b>	<b>\$ 4,224,235</b>	<b>\$ 3,404,108</b>	<b>\$ 13,873,450</b>
<b>LIABILITIES AND FUND BALANCES:</b>							
Liabilities:							
Account Payable	\$ 906,859	\$ -	\$ 700,276	\$ 11,574	\$ -	\$ 240,219	\$ 1,858,928
Bonds Payable	-	-	-	-	1,675,000	-	1,675,000
Account Interest	-	-	-	-	542,878	-	542,878
Due to Governmental Units	107,995	-	-	-	-	-	107,995
Due to Other Funds	1,598,834	8,585	-	293,987	-	661,927	2,563,333
Deferred Revenues:							
Volume of Business Tax	2,375,105	-	-	-	-	-	2,375,105
Commonwealth of Puerto Rico	114,180	-	-	-	-	-	114,180
Federal Grants	-	-	-	297,191	-	65,233	362,424
<b>Total Liabilities</b>	<b>5,102,973</b>	<b>8,585</b>	<b>700,276</b>	<b>602,752</b>	<b>2,217,878</b>	<b>967,379</b>	<b>9,599,843</b>
Fund Balances:							
Restricted	-	2,585,939	243,576	-	2,006,357	4,645,151	9,481,023
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned (Deficit)	(2,998,994)	-	-	-	-	(2,208,422)	(5,207,416)
Total Fund Balances	(2,998,994)	2,585,939	243,576	-	2,006,357	2,436,729	4,273,607
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,103,979</b>	<b>\$ 2,594,524</b>	<b>\$ 943,852</b>	<b>\$ 602,752</b>	<b>\$ 4,224,235</b>	<b>\$ 3,404,108</b>	<b>\$ 13,873,450</b>

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, 2012

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUND	SBGP FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>							
Property Taxes	\$ 3,275,212	\$ -	\$ -	\$ -	\$ 1,972,638	\$ -	\$ 5,247,850
Volume of Business Taxes	2,628,853	-	-	-	-	-	2,628,853
Sales and Usage Taxes	1,255,857	-	-	-	622,459	-	1,878,316
Federal Grants	-	8,253	-	-	-	2,901,953	2,910,206
Intergovernmental	6,207,858	-	1,242	1,116,766	-	2,798,760	10,124,626
Construction Excise Taxes	767,228	-	-	-	-	-	767,228
Rent	24,178	-	-	-	-	-	24,178
Miscellaneous	709,377	-	-	-	-	3,443	712,820
<b>Total Revenues</b>	<b>14,868,563</b>	<b>8,253</b>	<b>1,242</b>	<b>1,116,766</b>	<b>2,595,097</b>	<b>5,704,156</b>	<b>24,294,077</b>
<b>EXPENDITURES:</b>							
Current:							
Mayor and Municipal Legislature	1,804,685	-	-	-	-	-	1,804,685
General Government	8,697,412	-	-	-	-	2,012,301	10,709,713
Public Safety	818,990	-	-	-	-	-	818,990
Public Works	1,876,919	-	-	890,851	-	101,919	2,869,689
Culture and Recreation	955,965	-	-	-	-	-	955,965
Health and Sanitation	624,038	-	-	-	-	-	624,038
Solid Waste Disposal	1,998,960	-	-	-	-	-	1,998,960
Human Services and Welfare	255,222	-	-	-	-	1,106,691	1,361,913
Urban Development	133,965	5,000	-	225,915	-	520,004	884,884
Capital Outlay	184,135	-	4,578,268	-	-	3,561,782	8,324,185
Debt Service:							
Bond Issue Cost	-	-	-	-	13,920	-	13,920
Principal	-	-	-	-	2,159,600	-	2,159,600
Interest and Other Charges	-	-	-	-	1,281,140	-	1,281,140
<b>Total Expenditures</b>	<b>17,350,291</b>	<b>5,000</b>	<b>4,578,268</b>	<b>1,116,766</b>	<b>3,454,660</b>	<b>7,302,697</b>	<b>33,807,682</b>
Excess of Revenues Over (Under) Expenditures	(2,481,728)	3,253	(4,577,026)	-	(859,563)	(1,598,541)	(9,513,605)

**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, 2012**

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUND	SBGP FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>OTHER FINANCING SOURCES (USES):</b>							
Proceed of Bonds	1,940,000	-	-	-	-	1,251,000	3,191,000
Transfer - In	42,273	-	-	-	749,453	-	791,726
Transfer - Out	(247,173)	(496,025)	-	-	-	(48,528)	(791,726)
<b>Total Other Financing Sources and Uses</b>	<b>1,735,100</b>	<b>(496,025)</b>	<b>-</b>	<b>-</b>	<b>749,453</b>	<b>1,202,472</b>	<b>3,191,000</b>
<b>Net Change in Fund Balances</b>	<b>(746,628)</b>	<b>(492,772)</b>	<b>(4,577,026)</b>	<b>-</b>	<b>(110,110)</b>	<b>(396,069)</b>	<b>(6,322,605)</b>
Fund Balances, As Restated - Beginning	(2,252,366)	3,078,711	4,820,602	-	2,116,467	2,832,798	10,596,212
<b>FUND BALANCES - ENDING</b>	<b>\$2,998,994</b>	<b>\$ 2,585,939</b>	<b>\$ 243,576</b>	<b>\$ -</b>	<b>\$ 2,006,357</b>	<b>\$ 2,436,729</b>	<b>\$ 4,273,607</b>

*O. Rivera*  
*03/01/2012*

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, 2012

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<b>Total Fund Balances – Government Funds (Page 19)</b>		<b>\$ 4,273,607</b>
Amount reported for Governmental Activities in the Statement of Net Assets (Page15)		
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	\$ 33,124,568	
Depreciable General Capital Assets	25,378,002	
Infrastructure Assets	6,976,672	
Accumulated Depreciation	<u>(12,409,282)</u>	
Total Capital Assets		53,069,960
Other Assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred Charges		125,614
Some of the <b>Municipality's</b> 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	297,191	
Child and Adult Care Food Program	65,233	
Christmas Bonus	<u>114,180</u>	476,604
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	(30,926,000)	
Christmas Bonus	(228,360)	
Law Number 146 - MRCC	(248,353)	
Law Number 42 - MRCC	(563,838)	
Deferred Credit	(30,100)	
Compensated Absences	<u>(1,842,683)</u>	
Total Long-Term Liabilities		<u>(33,839,334)</u>
<b>Total Net Assets of Governmental Activities (Page 15)</b>		<b><u>\$24,106,451</u></b>

See accompanying notes to basic financial statements

**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, 2012**

<b>Net Change in Fund Balances – Government Funds (Page 19)</b>		<b>\$(6,322,605)</b>
Amount reported for Governmental Activities in the Statement of Activities (Page 16) 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	\$ 8,324,185	
Depreciation Expense	<u>(1,453,450)</u>	
Excess of Capital Assets over Depreciation Expense		6,870,735
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		(5,964)
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds:		
Christmas Bonus	17,434	
Community Development Block Grant	(314,942)	
Child and Adult Care Food Program	<u>( 16,171)</u>	
Total of Revenues		(313,679)
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.		
		2,522,548
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:		
		(3,191,000)
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:		
		2,159,600
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	(34,867)	
Increase in Compensated Absences	<u>(178,397)</u>	
Total Additional Expenses		<u>(213,264)</u>
<b>Change in Net Assets of Governmental Activities (Page 16)</b>		<b><u>\$ 1,506,371</u></b>

See accompanying notes to basic financial statements

## 1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Municipality of San Lorenzo, Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

### A. Organization

The 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. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, 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.

1. FINANCIAL REPORTING ENTITY – continuation

(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.

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, 2012, 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 (GAAP). 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

B. Measurement Focus and Basis of Accounting

***Government-wide Financial Statements***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

***Governmental Funds Financial Statements***

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, 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. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2012, all revenues sources met this availability criterion.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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.

**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".

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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, 2012. 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.

**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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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).

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. 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. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 GASB Accounting Standards Codification Section C60, *Compensated Absences*, 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, 2012. All vacation pay is accrued when incurred in the GWFS and PFFS. 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, when appropriate, 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 GASB Accounting Standards Codification Section Pe5, *Pension Plans – Defined Benefit*, the State 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*

A) *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.....	\$50,547,412
Outstanding Balance on Related Debt.....	(30,607,733)
Unspent Capital Debt Proceeds.....	3,987,775
Capital Contribution.....	<u>2,522,548</u>
Total Invested in Capital Assets, Net of Related Debt .....	<u>\$26,450,002</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.

B) *Fund Balance*

The Municipality implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* effective with the June 30, 2012 financial statements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the government's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

***Comprehensive Fund Balance Policy***

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)*. This new standard has substantially altered the categories and terminology used to describe the fund balance in governmental funds. The purpose of GASB 54 is to provide clarity to understand the extent of restrictions on the use of balances of the funds presented in the financial statements. One objective of this standard was to improve, including the understandability, the usefulness of fund balance information by providing clear fund balance classifications. GASB 54 abandons the reserved, unreserved, and designated classifications of fund balance and replaced them with five classifications: nonspendable, restricted, committed, assigned, and unassigned. The requirements of this statement are effective for the Municipality's financial statements for the fiscal year ending June 30, 2012.

GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The fund balance classifications indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints. The following five classifications serve to inform readers of the financial statements of the extent to which the Municipality is bound to honor constraints on the specific purposes for which resources in a fund can be spent.

- *Nonspendable Fund Balance* – Fund balance reported as “nonspendable” represents fund balance that is (a) not in a spendable form such as prepaid items or (b) legally or contractually required to be maintained intact such as an endowment.
- *Restricted Fund Balance* – Fund balance reported as “restricted” consists of amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources.
- *Committed Fund Balance* – Fund balance reported as “committed” are self-imposed limitations set in place prior to the end of the fiscal period. These amounts can be used only for the specific purposes determined by a formal action of the Municipal Legislature, which is the highest level of decision-making authority, and that require the same level of formal action to remove the constraint.
- *Assigned Fund Balance* – Fund balance reported as “assigned” consists of amounts that are subject to a purpose constraint that represents an intended use established by the Municipal Legislature or by a designated official. The purpose of the assignment must be narrower than the purpose of the General Fund. Formal action is *not* necessary to impose, remove, or modify a constraint in Assigned Fund Balance. Additionally, this category is used to reflect the appropriation of a portion of existing fund balance to eliminate a projected deficit in the subsequent year's budget.
- *Unassigned Fund Balance* – Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

***Policy on Committing Funds***

In accordance with GASB 54, it is the policy of the Municipality that fund balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution in accordance with Act Number 81 of August 30, 1991, known as Autonomy Municipalities Law of the Government of Puerto Rico. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

For example, the Municipal Legislature may approve a motion prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this action before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, in accordance with GASB 54, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

***Policy on Assigning Funds***

In accordance with GASB 54, funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature.

Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

***Policy on Unassigned General Fund Balance***

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance.

Appropriation from unassigned General Fund balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted.

***Policy on the Allocation of Priorities of Use of the Fund Balance***

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUNDS	SBGP FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted For:							
Improvement of Streets and Sidewalks	-	-	-	-	-	1,879,669	1,879,669
Improvement and Construction of Facilities	-	2,585,939	243,576	-	-	1,786,996	4,616,511
Capital Outlay	-	-	-	-	-	345,296	345,296
Welfare	-	-	-	-	-	385,840	385,840
Public Safety	-	-	-	-	-	12,875	12,875
Renewable Energy Projects	-	-	-	-	-	18,714	18,714
Improvement of Water and Sewer System	-	-	-	-	-	48,797	48,797
Sanitation	-	-	-	-	-	97,265	97,265
Public Instruction	-	-	-	-	-	67,475	67,475
Culture and Recreation	-	-	-	-	-	2,204	2,204
Debt Repayment	-	-	-	-	2,006,357	-	2,006,357
<b>Total Restricted</b>	<b>-</b>	<b>2,585,939</b>	<b>243,576</b>	<b>-</b>	<b>2,006,357</b>	<b>4,645,151</b>	<b>9,481,023</b>
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned:	(2,998,994)	-	-	-	-	(2,208,422)	(5,207,416)
<b>Total Fund Balances</b>	<b>\$ (2,998,994)</b>	<b>\$ 2,585,939</b>	<b>\$ 243,576</b>	<b>\$ -</b>	<b>\$ 2,006,357</b>	<b>\$ 2,436,729</b>	<b>\$ 4,273,607</b>

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, 2012 amounted to approximately \$204,692. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$222,889 for workers compensation insurance covering all municipal employees for the same period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

G. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP 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, 2012:

**GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.** The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 (FY 2012-2013). The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**GASB Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.** The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

The Municipality's financial statements were not affected by the implementation of these statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

**GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.** The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 (FY 2012-2013). Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements** introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011 (FY 2012-2013). Earlier application is encouraged.

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

**GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.** This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**Concepts Statement No. 4, Elements of Financial Statements,** introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

**GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.*** The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

**GASB Statement No. 67, *Financial Reporting for Pension Plans.*** This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.

**GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*** This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.

The Municipality has not yet determined the effect this statement will have on the Municipality's financial statements.

### 3. CASH AND INVESTMENTS

#### *Cash in Banks*

The Municipality's cash and investments at June 30, 2012 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 the 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, 2012, the cash are maintained in commercial banks with a balance of \$2,773,570 of which \$1,187,520 in the General Fund, \$957,734 in the Activities Center Fund, \$230,910 in the Multiuses Coliseum Fund, \$32,127 in the SBGP Fund, and \$365,279 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 \$4,193,459 that are restricted for the payment of the Municipality's debt service, as required by law, \$712,942 are unspent proceeds of bonds that are restricted for the construction of the Multiuses Coliseum, other \$2,457,802 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 \$2,457,802 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 GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2012:

#### *Credit Risk*

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012, the Municipality has invested only in cash in banks of \$2.9 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, 2012. 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, 2012.

#### *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, 2012, the Municipality has balances deposited in commercial banks amounting to \$2.9 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 \$7.4 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, 2012. 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, 2012, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**3. CASH AND INVESTMENTS – continuation**

***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, 2012, (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, 2012, 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, 2012.

**4. DUE FROM GOVERNMENTAL UNITS**

As of June 30, 2012, the amount of \$114,180 corresponds to the Christmas Bonus, amount to be provided by 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	\$ -	\$ 2,375,105
Commonwealth of Puerto Rico	114,180	-
Child Care	65,233	-
SBGP	297,191	-
Total Deferred/Unearned Revenue	<u>\$ 476,604</u>	<u>\$ 2,375,105</u>

**6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

**A. Interfund Receivable and Payable Balances**

Due to/from Other Funds at June 30, 2012 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Major Fund	\$ 623,971
Activity Center Fund	Other Major Fund	37,956
SBGP Fund	Activity Center Fund	8,585
Activity Center Fund	General Fund	1,598,834
SBGP Fund	General Fund	80,576
Other Major Fund	SBGP Fund	<u>213,411</u>
<b>TOTAL</b>		<b><u>\$2,563,333</u></b>

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	\$ 247,173	Bond Principal and Interest Payments
Other Governmental Funds	General Fund	42,273	Budget Specific Project Funding
Other Governmental Funds	Debt Service Fund	6,255	Bond Issue Costs
Activities Center Fund	Debt Service Fund	496,025	Bond Principal and Interest Payments
	Total	<u>\$ 791,726</u>	

7. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2012, balance due to other governmental units of the General Fund for services rendered to the Municipality (\$107,995) consists of AEELA (\$19,618), Puerto Rico Retirement Administration (\$55,471); and Puerto Rico Aqueduct and Sewer Authority (\$32,906).

8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2012 was as follows:

DESCRIPTION	BALANCE JULY 1, 2011	INCREASE	DECREASE	BALANCE JUNE 30, 2012
Non-Depreciable Capital Assets:				
Land	\$ 14,211,755	\$ 2,255,373	\$ -	\$ 16,467,128
Construction in Progress	11,689,210	4,968,230	-	16,657,440
Total Non-Depreciable Capital Assets	<u>25,900,965</u>	<u>7,223,603</u>	<u>-</u>	<u>33,124,568</u>
Depreciable Capital Assets:				
Buildings	16,270,727	756,788	(70,000)	16,957,515
Infrastructure	5,695,373	1,281,299	-	6,976,672
Machinery and Equipment	2,249,515	236,340	(53,687)	2,432,168
Motor Vehicles	5,282,601	1,348,703	(642,985)	5,988,319
Total Depreciable Capital Assets	<u>29,498,216</u>	<u>3,623,130</u>	<u>(766,672)</u>	<u>32,354,674</u>
Less Accumulated Depreciation:				
Buildings	(5,681,160)	(431,057)	70,000	(6,042,217)
Infrastructure	(1,497,390)	(158,504)	-	(1,655,894)
Machinery and Equipment	(1,933,013)	(176,211)	53,687	(2,055,537)
Motor Vehicles	(2,610,941)	(687,678)	642,985	(2,655,634)
Total Accumulated Depreciation	<u>(11,722,504)</u>	<u>(1,453,450)</u>	<u>766,672</u>	<u>(12,409,282)</u>
Total Depreciable Capital Assets (Net)	<u>17,775,712</u>	<u>2,169,680</u>	<u>-</u>	<u>19,945,392</u>
CAPITAL ASSETS, NET	<u>\$ 43,676,677</u>	<u>\$ 9,393,283</u>	<u>\$ -</u>	<u>\$ 53,069,960</u>

**8. CAPITAL ASSETS – continuation**

The Municipality received various parcels of land from its citizens as unrestricted donations and contributions totaling \$2,255,548 in fiscal year 2011-2012, 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. In addition, the Municipality received a vehicle (\$17,000) from the Homeland Security Program, and a school building (\$250,000), in which the Municipality established an Electronic Library.

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

	AMOUNT
Mayor and Municipal Legislature	\$ 392,305
General Government	224,228
Public Safety	156,922
Public Works	326,921
Culture and Recreation	104,615
Human Services and Welfare	169,998
Urban Development	78,461
<b>Total Depreciation Expenses</b>	<b><u>\$ 1,453,450</u></b>

**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 July 2011, the Municipality issued general obligation bonds of 2011 in the amount of \$135,000 for construction purposes. The principal installments are payable annually ranging from \$5,000 to \$10,000 on the 1<sup>st</sup> days of July of each year. The variable interests at 6.00% through 7.50% are payable semi-annually on the 1<sup>st</sup> days of January and July of each year through July 2036.

Also, during July 2011, the Municipality issued special obligation bonds of 2011 in the amount of \$271,000 for purchase of equipment. The principal installments are payable annually ranging from \$30,000 to \$46,000 on the 1<sup>st</sup> days of July of each year. The variable interests at 6.00% through 7.00% are payable semi-annually on the 1<sup>st</sup> days of January and July of each year through July 2018.

During January 2012, the Municipality issued general obligation bonds of 2012 in the amount of \$435,000 for general construction. The principal installments are payable annually ranging from \$5,000 to \$35,000 on the 1<sup>st</sup> days of July of each year. The variable interests at 6.00% through 6.50% are payable semi-annually on the 1<sup>st</sup> days of January and July of each year through July 2036.

In addition, during January 2012, the Municipality issued general obligation bonds of 2012 in the amount of \$1,940,000 for operational purposes. The principal installments are payable annually ranging from \$35,000 to \$155,000 on the 1<sup>st</sup> days of July of each year. The variable interests at 6.00% through 6.50% are payable semi-annually on the 1<sup>st</sup> days of January and July of each year through July 2036.

During May 2012, the Municipality issued special obligation bonds of 2012 in the amount of \$410,000 for resurfacing projects. The principal installments are payable annually ranging from \$45,000 to \$75,000 on the 1<sup>st</sup> days of July of each year. The variable interests at 6.00% through 7.5% are payable semi-annually on the 1<sup>st</sup> days of January and July of each year through July 2018.

9. GENERAL LONG-TERM DEBTS - continuation

General and special obligations bonds as of June 30, 2012, are comprised of the following individual issues:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
<b>General Obligation Bonds - Property Taxes</b>			
\$1,525,000, Series 1997 - General Construction	2021	4.87% to 6.56%	\$ 955,000
\$575,000, Series 1996 - General Construction	2015	4.87% to 6.29%	205,000
\$4,025,000, Series 2003 - General Construction	2027	4.36% to 5.02%	3,215,000
\$2,015,000, Series 2005 - General Construction	2030	3.27% to 4.80%	1,255,000
\$1,500,000, Series 2004 - General Construction	2030	4.17% to 5.02%	1,320,000
\$1,115,000, Series 2007-08 - General Construction	2012	1.53% to 5.40%	260,000
\$2,795,000, Series 2008-09 - General Construction	2033	1.53% to 6.00%	2,665,000
\$2,150,000, Series 2008-09 - General Construction	2033	1.53% to 6.00%	2,050,000
\$1,486,000, Series 2008-09 - Operation	2019	4.75% to 6.00%	1,146,000
\$2,235,000, Series 2010 - General Construction	2034	5.00% to 6.50%	2,170,000
\$2,295,000, Series 2011 - Purchase of Equipment	2017	6.00% to 7.50%	2,035,000
\$135,000, Series 2012 - General Construction	2036	6.00% to 7.50%	135,000
\$435,000, Series 2012 - Purchase of Property	2036	6.00% to 6.50%	435,000
\$1,940,000, Series 2012 - Operation	2036	6.00% to 6.50%	1,940,000
<b>Total General Obligations Bonds</b>			<b><u>19,786,000</u></b>
<b>Special Obligation Bonds - General Revenues</b>			
\$1,915,000, Series 2004 - Operation	2024	1.53% to 7.00%	1,365,000
<b>Special Obligation Bonds - Section 108 (HUD)</b>			
\$6,000,000, Series 2006 - General Construction	2026	4.96% to 5.77%	5,647,000
<b>Special Obligation Bonds - Sales and Usage Taxes</b>			
\$1,175,000, Series 2008 - General Construction	2032	1.53% to 6.00%	1,130,000
\$1,006,000, Series 2009 - General Construction	2013	1.53% to 5.40%	446,000
\$172,000, Series 2011 - Purchase of Equipment	2017	6.00% to 6.50%	152,000
\$474,000, Series 2011 - General Construction	2017	6.00% to 6.50%	419,000
\$3,015,000, Series 2011 - General Construction	2035	6.00% to 7.00%	2,975,000
\$271,000, Series 2012 - Purchase of Equipment	2018	6.00% to 7.00%	271,000
\$410,000, Series 2012 - General Construction	2018	6.00% to 7.50%	410,000
<b>Subtotal</b>			<b><u>5,803,000</u></b>
<b>Total Special Obligations Bonds</b>			<b><u>12,815,000</u></b>
<b>Total General and Special Obligation Bonds</b>			<b><u>\$ 32,601,000</u></b>

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, 2012, 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.

9. GENERAL LONG-TERM DEBTS – continuation

B. 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.

C. Other Long-Term Debts

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%.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2012 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2012.

Deferred Credits

This amount represents the unpaid balance of the bond issue cost of the following obligation: \$2,295,000, Series 2011; \$1,940,000, Series 2012; \$135,000, Series 2012; \$435,000, Series 2012, general obligation bonds; \$172,000, Series 2011; \$474,000, Series 2011, \$3,015,000, Series 2011; \$271,000, Series 2012; \$410,000, Series 2012, special obligations bonds.

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, 2011	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2012	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Law Number 42 - MRCC	\$ 577,238	\$ -	\$ (13,400)	\$ 563,838	\$ 14,242	\$ 549,596
Law Number 146 - MRCC	260,770	-	(12,417)	248,353	12,418	235,935
LIMS - MRCC	25,783	-	(25,783)	-	-	-
Christmas Bonus	193,493	228,360	(193,493)	228,360	228,360	-
Defered Charges	24,291	5,809	-	30,100	-	30,100
Compensated Absences	1,664,286	288,663	(110,266)	1,842,683	1,522,890	319,793
<b>TOTAL</b>	<b>\$ 2,745,861</b>	<b>\$ 522,832</b>	<b>\$ (355,359)</b>	<b>\$ 2,913,334</b>	<b>\$ 1,777,910</b>	<b>\$ 1,135,424</b>

9. GENERAL LONG-TERM DEBTS – continuation

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2012:

DESCRIPTION	BALANCE JULY 1, 2011	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2012	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$ 18,481,000	\$ 2,510,000	\$ (1,205,000)	\$ 19,786,000	\$ 1,240,000	\$ 18,546,000
Special	12,902,000	681,000	(768,000)	12,815,000	1,226,000	11,589,000
Others	2,745,861	522,832	(355,359)	2,913,334	1,777,910	1,135,424
<b>TOTAL</b>	<b>\$ 34,128,861</b>	<b>\$ 3,713,832</b>	<b>\$ (2,328,359)</b>	<b>\$ 35,514,334</b>	<b>\$ 4,243,910</b>	<b>\$ 31,270,424</b>

E. Debt Compliance

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

The annual requirements to amortize the general long-term debts outstanding as of June 30, 2012 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
2013	\$ 1,240,000	\$ 821,878	\$ 1,226,000	\$ 458,925	\$ 1,746,413	\$ 50,118	\$ 4,212,413	\$ 1,330,921
2014	1,045,000	979,101	914,000	638,265	27,554	48,451	1,986,554	1,665,817
2015	1,125,000	987,925	708,000	621,713	28,505	46,728	1,861,505	1,656,366
2016	1,210,000	925,189	738,000	580,408	29,516	44,944	1,977,516	1,550,541
2017	1,230,000	850,906	763,000	536,993	30,590	43,098	2,023,590	1,430,997
2018-2022	4,541,000	3,342,806	3,312,000	2,018,451	171,583	247,360	8,024,583	5,608,617
2023-2027	3,675,000	2,305,914	2,899,000	1,189,266	210,585	188,958	6,784,585	3,684,138
2028-2032	3,545,000	1,204,078	1,240,000	568,550	287,201	117,479	5,072,201	1,890,107
2033-2037	2,175,000	249,285	1,015,000	135,800	344,081	-	3,534,081	385,085
Unmatured	-	-	-	-	-	-	-	-
	<u>\$19,786,000</u>	<u>\$11,667,082</u>	<u>\$12,815,000</u>	<u>\$6,748,371</u>	<u>\$2,876,028</u>	<u>\$ 787,136</u>	<u>\$35,477,028</u>	<u>\$19,202,589</u>

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 1<sup>st</sup> 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).

## 11. PROPERTY TAXES – continuation

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 2012 resulted in a receivable of \$30,776 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 2012 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 Act 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.

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, 2012, 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 Usage Tax Return Form, no later than the 10<sup>th</sup> 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, 2012, 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.

**14. CONSTRUCTION EXCISE TAXES – continuation**

- 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.

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.

**16. PENSION PLAN – continuation**

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
Hired on or after April 1, 1990	8.275% of gross salary over \$6,600
	8.275% of gross salary

**Annual Contribution**

The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

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.

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2012	\$ 56,876	\$ 258,410
2011	185,126	278,995
2010	74,822	259,424

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, 2012, amounted to approximately \$200,000. 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 and Improvement Commitments**

The Municipality had encumbrances at June 30, 2012 for the construction, improvements, or renovation of several municipal facilities in the following funds:

	<b>Encumbered For</b>	<b>Amount</b>	<b>Reported within Fund Balance Classification</b>
Multiuses Coliseum Fund	Construction of Multiuses Coliseum	\$ 1,094,150	Restricted to Improvement and Construction of Facilities
Non Major Funds	Purchase of Trucks	642,649	Restricted to Improvement of Streets and Sidewalks
	Construction of Library	77,730	Restricted to Improvement and Construction of Facilities
	Construction of Facilities	273,895	Restricted to Improvement and Construction of Facilities

**C. Other Commitments**

At June 30, 2012, the general fund had a deficit of \$2,865,029 which will be covered with future budgetary appropriations of the general fund. Also, the other governmental fund had a deficit of \$2,170,466. The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

**19. SUBSEQUENT EVENT**

Management has evaluated subsequent events through March 21, 2013, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2012.

**END OF NOTES**

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

**REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2012

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, 2012

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Notes 1 and 2)	Final Budget
<b>BUDGETARY FUND BALANCE (DEFICIT), AS RESTATED, JULY 1, 2011</b>	<b><u>\$ (3,551,342)</u></b>	<b><u>\$ (3,551,342)</u></b>	<b><u>\$ (3,551,342)</u></b>	<b><u>\$ -</u></b>
Resources (Inflows):				
Property Taxes	3,275,212	3,275,212	3,275,212	-
Volume of Business Taxes	3,250,000	3,250,000	2,628,853	(621,147)
Sales and Usage Taxes	1,104,000	1,104,000	1,255,857	151,857
Intergovernmental Revenues	6,272,116	6,579,532	6,207,858	(371,674)
Construction Excise Taxes	1,282,588	1,282,588	767,228	(515,360)
Rent	30,600	30,600	24,178	(6,422)
Miscellaneous	<u>145,200</u>	<u>185,200</u>	<u>657,281</u>	<u>472,081</u>
<b>Total Resources (Inflows)</b>	<b><u>15,359,716</u></b>	<b><u>15,707,132</u></b>	<b><u>14,816,467</u></b>	<b><u>(890,665)</u></b>
Amounts Available for Appropriation	<u>11,808,374</u>	<u>12,155,790</u>	<u>11,265,125</u>	<u>(890,665)</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,988,852	2,317,947	2,073,769	244,178
General Government	6,679,790	6,302,618	8,792,410	(2,489,792)
Public Safety	1,034,437	874,862	829,042	45,820
Public Works	1,343,840	1,964,216	1,952,242	11,974
Culture and Recreation	1,017,844	973,911	987,721	(13,810)
Health and Sanitation	662,277	654,277	624,038	30,239
Human Services and Welfare	201,564	258,572	255,222	3,350
Solid Wasted Disposal	1,998,000	1,998,000	1,998,960	(960)
Urban Development	-	-	133,965	(133,965)
Capital Outlays	84,000	115,556	196,744	(81,188)
Transfer to Other Funds	<u>349,112</u>	<u>247,173</u>	<u>247,173</u>	<u>-</u>
Total Charges to Appropriations	<u>15,359,716</u>	<u>15,707,132</u>	<u>18,091,286</u>	<u>(2,384,154)</u>
<b>BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2012</b>	<b><u>\$ (3,551,342)</u></b>	<b><u>\$ (3,551,342)</u></b>	<b><u>\$ (6,826,161)</u></b>	<b><u>\$ (3,274,819)</u></b>

See accompanying Notes to Required Supplementary Information

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**1. Budgetary Reporting**

The Budgetary Comparison Schedule - General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standards Codification Section 1700, The Budget and Budgetary Accounting. Formal and legal budgetary control is based upon major classes of expenditures known as functions. The Municipality's expenditures in Public Safety, Public Works, and Human Services and Welfare functions exceed the budgetary amount by \$6,525, \$176,439 and \$17,625, respectively, due to far greater than expected increased expenditures for materials, repair and maintenance of facilities and citizen support.

**2. Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	<u>General Fund</u>
<b>Sources/Inflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 51)	\$ 11,265,125
Difference – Budget to GAAP:	
GASB 54 Reclassification of Revenue	52,096
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>3,551,342</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 14,868,563</u>
<b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 51)	\$ 18,091,286
Difference – Budget to GAAP:	
Non budgetary expenditures (expenditures reclassification GASB 54)	120
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(736,107)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	242,165
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(247,173)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 17,350,291</u>

**END OF THIS SECTION**

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

**SINGLE AUDIT SECTION**

YEAR ENDED JUNE 30, 2012

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

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 of Families and Children			
Child and Adult Care Food Program.....	10.558	CCC-193	\$ <u>43,128</u>
U.S. Department of Housing and Urban Development Direct Programs:			
Direct programs:			
Section 8 Housing Choice Voucher.....	14.871	RQ037	685,119
Section 108 Loan Guarantees.....	14.248		<u>5,000</u>
Subtotal Department of Housing and Urban Development Direct Programs.....			<u>690,119</u>
Pass-Through State from – Office of the Commissioner of Municipal Affairs:			
Homeless Prevention and Rapid Rehousing Program .....	14.257	2010-000218	372,622
Community Development Block Grant/States Program (SBGP) And Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program) .....	14.228	2012-004720	<u>1,116,766</u>
Subtotal Department of Housing and Urban Development Pass-Through Programs .....			<u>1,489,388</u>
U. S. Department of Transportation:			
Federal Transit- Capital Investment Grants (Cluster) .....	20.500	N/AV	411,586
Federal Transit – Formula Grants (Urbanized Area Grant Program) (Cluster) .....	20.507	N/AV	<u>325,678</u>
Subtotal Federal Transit Grant (Cluster) .....			<u>737,264</u>
U. S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care And Integral Development:			
Child Care and Development Block Grant.....	93.575	2012-000083	<u>358,051</u>
U. S. Department of Energy:			
Installation of a Photovoltaic System on the City Hall Building .....	81.128	N/AV	<u>21,270</u>
U.S. Department of Justice			
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and territories .....	16.803	2009-54-ROSAL-01	<u>200,000</u>
U. S. Department of Homeland Security:			
Pass-Through Governor Office:			
Public Assistance Grants.....	97.036	FEMA-4004, FEMA 4017	1,012,541
Pass-Through Office of the Homeland Security Affairs:			
Homeland Security Grant Program.....	97.067	2009-SS-T9-0091	<u>54,296</u>
			<u>1,066,837</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS.....</b>			<b><u>\$ 4,606,057</u></b>

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, 2012**

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**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 – \$1,116,766 and Other Governmental Funds – \$3,489,291.

**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, 2012, which collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements and have issued our report thereon dated March 21, 2013. 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.

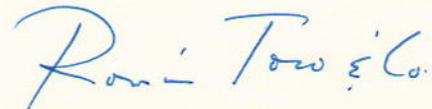
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 2012-II-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 certain instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2012-III-1 through 2012-III-7.

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., CPA, C.S.P.  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 21, 2013

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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 could have a direct and material effect to each of its major federal programs for the year ended June 30, 2012. 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.

As described in items 2012-III-1 and 2012-III-4 in the accompanying schedule of findings and questioned costs, the Municipality of San Lorenzo, Puerto Rico did not comply with requirements regarding Activities Allowed and Unallowed (A) as well as Allowable Costs/Cost Principles (B) that are applicable to its Community Development Block Grants-Section 108 Loan Guarantees (CFDA 14.248) and its Homeless Prevention and Rapid Rehousing Program (CFDA 14.257), respectively. Compliance with such requirements is necessary, in our opinion, for the Municipality of San Lorenzo, Puerto Rico to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraphs, 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, 2012. 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 2012-III-2, 2012-III-3, 2012-III-5, 2012-III-6, 2012-III-7.

## 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.

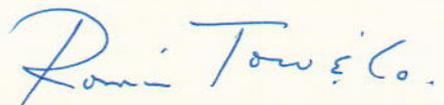
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance 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 2012-III-1, 2012-III-2, and 2012-III-4 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 2012-III-3, 2012-III-5, 2012-III-6 and 2012-III-7 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.

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., CPA, C.S.P.  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 21, 2013

Stamp # E46244 was affixed to  
the original of this report

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**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	Community Development Block Grant/States Program
14.248	Community Development Block Grant – Section 108 Loan Guarantee
14.257	Homeless Prevention and Rapid Rehousing Program
14.871	Section 8 Housing Choice Vouchers
16.803	Edward Byrne Memorial Justice Assistance Grant
20.500; 20.507	Federal Transit Cluster (ARRA)
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**

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**2012-II-1**

Type of finding: Financial statement.

Situation: Significant deficiency, compliance over local regulations.

Compliance Requirements: Not applicable.

Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4, 2010-II-1; 2011-II-1

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 twenty-nine (29) checks for a total of \$1,514,408 to contractors where the 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 with state, local, and federal laws and regulations, as well as accounting and documentation issues before the disbursement is made, in order to prevent noncompliance, errors, and fraud. 13 (or 71%) of the disbursed checks mentioned above were for one contractor.

**Criteria:**

Section 8 of Chapter IV of the Municipal Administration Manual as issued by the Puerto Rico 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.

**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 will take the necessary actions to assure that the Municipality does not disburse any funds without the required documentation, authorizations and signatures.

**Audit finding status:**

Unresolved.

**END OF SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012**

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

**2012-III-1**

Type of finding: Federal Award.

Situation: Material weakness in internal controls; compliance with loan agreements.

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

Compliance Requirements: Activities Allowed and Unallowed (A); Allowable Costs/Cost Principles (B)

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

Questioned Costs: \$1,636,790 at June 30, 2012, \$2,167,288 as of our audit date.

***Condition:***

The Municipality used cash resources from its Section 108 Loan Guarantee program fund for its own general operations, in violation of the program's loan agreement and applicable federal regulations.

***Context:***

The Municipality has used cash resources from the Section 108 Loan Guarantee fund account as temporary loan transfers to its General Fund to cover cash deficiencies in its general operations, in violation of the loan agreement and program regulations, with an outstanding amount totaling \$1,636,790 at June 30, 2012. Between July and September 2012, the Municipality transferred an additional \$530,498 for similar uses. As of our audit date, the amounts have not been returned to the Section 108 Loan Guarantee account.

The Municipality's Section 8 Loan Guarantee funds were obtained by a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974 (42 USC §5308), in order to develop a Municipal Activity Center Project aimed to foster economic development of a low-income area in the Municipality. So far, the loan guarantee funds have been used for the acquisition of land, demolition of old structures, and design and preparation for the development of the planned activity. As of our audit date, no other development has been performed for the planned activity. After December 31, 2008, the Municipality has used the resources in its Guaranteed Loan Funds Account for its Loan Repayment Account in accordance with paragraph 1(a) of the loan agreement to meet the required obligations of the loan.

***Criteria:***

The Municipality's Section 8 Loan Guarantee funds were obtained by a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974 (42 USC §5308), signed by the Municipality and the Puerto Rico state cognizant agency (Office of the Commissioner for Municipal Affairs) on August 29, 2006, and signed by the US Department of Housing and Urban Development on September 13, 2006 (the "loan agreement"). In Paragraph 1(a) of such agreement, the withdrawal of the loan guarantee funds is restricted for the use of Section 108 activities approved by HUD and economic development activities pursuant to 24 CFR 570.703 and 570.203, which include the construction of a Municipal Activity Center Project (paragraph 15(b) of the loan agreement).

***Cause:***

The Municipality's cash and liquidity position has deteriorated significantly, reducing the resources available for certain of its operations and funds. Its Finance Department; therefore, decided to use the resources from the Section 108 Loan Guarantee funds to cover the cash needs of its operations, and controls were not imposed to deter or prevent such transfer of funds.

***Effect:***

The Municipality's Section 108 Loan Guarantee Fund was deprived of the necessary resources needed to complete the activities it was awarded for.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)**

2012-III-1, continued

***Auditor's recommendation:***

The Municipality must reimburse all resources obtained from such funds to the Section 108 Loan Guarantee account immediately, or establish a Section 108 repayment fund account to provide compensation to the US Department of Housing and Urban Development for noncompliance with the loan agreement.

The Municipality must also prepare and submit the required financial reports of the Section 108 Loan Guarantee funds to the state cognizant agency for their review. The Municipality should revise its controls to assure that General Fund's operations do not infringe on the resources and appropriations of other funds whose use are restricted, and forbid the discretionary use of restricted fund accounts.

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

Management is aware that they used those funds, and are making the necessary arrangements to replace them by April 15, 2013. Management also wishes to enter into an agreement with the grantor agency over the ultimate use of those funds.

***Audit finding status:***

Unresolved.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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

**2012-III-2**

Type of finding: Federal Award.

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

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

Compliance Requirements: Activities Allowed and Unallowed (A); Allowable Costs/Cost Principles (B)

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

Questioned Costs: None.

***Condition:***

The Municipality used cash resources from its Section 8 Housing Choice Voucher program (Section 8 Program) for its own general operations, instead of crediting such resources owed by the program to the Municipality.

***Context:***

The Section 8 program's cash and investments are deposited in three separate accounts in federally-insured financial institutions. One of those bank accounts is a pool of various restricted funds, which included \$58,921 in cash resources from the Section 8 program's Administrative and HAP reserves. During the year, the total cash funds of the account have at times decreased below the amount indicated as the Section 8 reserves, including a consistently prolonged period from November 2011 through May 2012. In June 30, 2012, the account had sufficient resources to cover such reserves. However, the Section 8 program has an outstanding liability to the Municipality's General Fund, for Section 8 program's expenditures paid with the Municipality's local funds, which totaled \$136,755 as of June 30, 2012, exceeding the respective reserves mentioned in the preceding paragraph. However, as of June 30, 2012 and as of our audit date, the Municipality has not yet credited the amounts owed to those reserve funds.

***Criteria:***

24 CFR § 982.156 states that the Municipality "may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements."

***Cause:***

The Municipality's cash and liquidity position has deteriorated significantly, reducing the resources available for certain of its operations and funds. The account used by the Municipality where those funds are deposited also includes other funds, including other state and local grants. Instead of crediting the resources used against amounts owed by the Program, the Municipality uses the funds of the account on a need basis for the operations of the grants and contributions deposited there.

***Effect:***

The Section 8 program was temporarily deprived of cash resources needed to complete the activities it was awarded for.

***Auditor's recommendation:***

The Municipality should immediately transfer the funds to one of the two Section 8 Housing Choice Voucher separate accounts. The Municipality should also revise its controls to assure that its operations do not infringe on the resources and appropriations of other funds whose use are restricted, and forbid the discretionary use of restricted fund accounts reserves.

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

The Municipality will make the corresponding revision to replenish and transfer these funds to a separate account, created exclusively for the program. This will allow us to bring a proper accounting of these funds and in turn avoid the use of them because they will not be together with other funds.

***Audit finding status:***

Unresolved.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012**

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

**2012-III-3**

Type of finding: Federal Award.

Situation: Significant deficiency in internal controls; compliance with loan agreements.

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

Compliance Requirements: Special Tests and Provisions (N)

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

Questioned Costs: None.

***Condition:***

The Municipality's Section 8 Housing Choice Voucher program's (Section 8 Program)'s Administrative Reserve account finished the fiscal year ended June 30, 2012 with a negative reserve balance totaling -\$15,795.

***Context:***

The Municipality's Section 8 Program has cash reserves for HAP and Administrative purposes; however, many transactions are paid by the Municipality's General Fund, creating an outstanding debt balance between the two funds until the costs are reimbursed by the Section 8 Program. These have accumulated over various years without full reimbursement of costs, and at June 30, 2012 exceeded the program's Administrative assets by \$15,795. The Program still maintains positive Administrative cash reserves totaling \$117,935 as of June 30, 2012.

***Criteria:***

24 CFR § 982.155 states that the Municipality "must maintain an administrative fee reserve for the program."

***Cause:***

The Municipality' Section 8 program did not adequately project excess expenditures over revenues, until it had excess expenditures accumulated waiting to be liquidated.

***Effect:***

The Section 8 program's administrative reserves were depleted at year end; however, the program maintains cash reserves offset by liabilities owed to the Municipality.

***Auditor's recommendation:***

The Municipality should review the ongoing costs incurred by the Section 8 program's administration in order to reduce such levels to match the revenue received from HUD. For the current outstanding balance, the Municipality should consider reviewing the interfund debt outstanding by the Program, and cover the deficiency with its local funds. The Municipality should not liquidate the entire amount owed to the General Fund until the Program's Administrative reserves are returned to a reasonable level for its operations.

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

The Municipality will make the corresponding revisions to prevent the expenditures exceed the revenues of the Section 8 Program. In turn, we have begun to review the debt between funds to clear it. The deficiencies found shall be covered with municipal funds.

***Audit finding status:***

Unresolved.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012**

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

**2012-III-4**

Type of finding: Federal Award.

Situation: Material weakness in internal controls; compliance with grant agreement.

Federal Program: Homeless Prevention and Rapid Rehousing Program (CFDA 14.257)

Compliance Requirements: Activities Allowed and Unallowed (A); Allowable Costs/Cost Principles (B)

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

Questioned Costs: \$173,787

***Condition:***

The Municipality could not provide us with a written authorization from the pass-through entity for the request, receipt, and use of \$173,787 in Homeless Prevention and Rapid Rehousing Program (HPRP) funds to cover administrative costs.

***Context:***

On May 20, 2012, the Municipality requested \$187,787 in the remaining program funds of the HPRP program's assignment to the pass-through entity, the Puerto Rico Department of the Family (PRDF). The invoice contained the assigned budget of the HPRP program and the amounts requested to each assigned budget line item, requesting \$1,730 for Administrative costs, \$124,620 Homelessness Prevention activities, and \$61,437 for Rapid Re-Housing activities. The pass-through agency approved and reimbursed a total of \$173,787 to the Municipality on June 27, 2012 for such request.

However, the documentation that the Municipality maintains to document the reimbursement requests consists of administrative costs of various programs and departments within the Municipality which, according to management, assisted in the administration and services of the program. This included, in part, \$74,733 for the Section 8 Program administration department and \$13,616 for the SBGP administration department for the purposes of payroll, materials, and rent of offices and equipment. The Municipality informed us that such reimbursement was approved by the agency; however, it failed to provide evidence that the pass-through agency approved use of the requested funds.

***Criteria:***

The assigned budget of the Municipality's HPRP program by the pass-through entity is included in the 6<sup>th</sup> clause of the grant contract of the funds, #2010-000218, dated November 30, 2009, and signed by the Municipality and the PRDF, as amended, which assigned a total of \$2,500 for administrative costs, \$427,641 for Homelessness Prevention activities, and \$108,250 for Rapid Re-Housing activities.

***Cause:***

The Municipality used funds from its HPRP program to cover administrative costs in various departments, and could not provide evidence that such reimbursement complied with the grant's budgeted activities and program objectives.

***Effect:***

The Municipality received funds for activities that were not included in its grant contract and are not clear in the compliance of the program's objectives.

***Auditor's recommendation:***

The Municipality should review the costs incurred by HPRP program and its supporting documentation relating to the final reimbursement request submitted. If written approval from the pass-through agency for such reimbursement use is not found in the documentation, then the Municipality should immediately alert the pass-through agency about the situation, and if no approval is ultimately obtained, reimburse the pass-through agency with the funds received as part of the request.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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

2012-III-4, continued

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

Although verbal instructions were received from agency staff that gave us those funds and how to use them, we will arrange to clarify this issue and reach an agreement with the agency.

***Audit finding status:***

Unresolved.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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

**2012-III-5**

Type of finding: Federal Award Finding.

Situation: Significant deficiency, compliance with local regulations

Federal Program: Community Development Block Grant/States Program (SBGP) (14.228).

Compliance Requirements: Local regulations.

Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4, 2010-II-1; 2011-II-1

Questioned Costs: None.

***Condition and Context:***

Finding 2012-II-1 on page 60 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 29 checks for a total of \$1,514,408 to contractors when the disbursement voucher authorizing the expenditure was not signed nor approved by the Municipality's pre-intervention personnel, as required by local regulations. Of these 29 checks, 9 checks totaling \$659,019 were for SBGP activities.

For more information, see Finding 2012-II-1.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012**

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

**2012-III-6**

Type of finding: Federal Award Finding.

Situation: Significant deficiency, compliance with local regulations

Federal Program: Federal Transit Cluster (ARRA) (CFDA 20.500; 20.507)

Compliance Requirements: Procurement (I); Compliance with local regulations

Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4, 2010-II-1, 2011-II-1

Questioned Costs: None.

***Condition:***

The Municipality disbursed funds from the Federal Transit Cluster programs without proper documentation of procurement procedures and without the required review and authorization of its pre-intervention personnel.

***Context:***

Finding 2012-II-1 on page 60 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 29 checks for a total of \$1,514,408 to contractors when the disbursement voucher authorizing the expenditure was not signed nor approved by the Municipality's pre-intervention personnel, as required by local regulations. Of these 24 checks, 2 checks totaling \$101,780 were for Federal Transit Cluster activities. For more information, see Finding 2012-II-1.

One of these checks, check # 5938 totaling \$65,600 and used for the purchase of 2 public transport vans, did not include within its supporting documentation evidence of procurement procedures, specifically the process of obtaining competing price quotes from potential vendors and contractors.

***Criteria:***

Federal Transit Administration Circular Letter 4220.1E states that grantees must perform all procurement transactions in a manner providing full and open competition, and prepare a cost or price analysis in connection with every procurement action, including contract modifications, involving FTA funds. For small purchase procedures that cost more than \$2,500 but do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. § 403(11) (currently set at \$100,000), price or rate quotations shall be obtained from an adequate number of qualified sources.

Section 8 of Chapter IV of the Municipal Administration Manual as issued by the Puerto Rico 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.

***Cause:***

This situation occurred because the Municipality did not solicit pricing from more than one vendor. The pre-intervention employee had objections toward each contractor's compliance with contract clauses and regulations, including the missing price quotes documenting procurement. 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 documenting first the procurement process of the federal expenditure, and did not contain the proper authorization from the required personnel.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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

**2012-III-6, continued**

***Auditor's recommendation:***

The Municipality must not disburse any funds, whether federal or local, without first documenting the procurement process of the expenditure when it exceeds the federal or local small purchase threshold, whichever is lower. It must also not disburse funds 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 regulations are met.

Controls should be revised to deter such disbursements from occurring in the future. Additionally, the Municipality should obtain proper documentation justifying its procurement actions of the expenditures mentioned above, and for all future federal expenditures it incurs.

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

The Finance Director will take the necessary actions to assure that the Municipality does not disburse any funds without the required documentation, authorizations and signatures.

***Audit finding status:***

Unresolved.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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

**2012-III-7**

Type of finding: Federal Award Finding.

Situation: Significant deficiency, compliance with local regulations

Federal Program: Disaster Grants – Public Assistance (97.036).

Compliance Requirements: Local regulations.

Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4, 2010-II-1, 2011-II-1

Questioned Costs: None.

**Condition:**

The Municipality disbursed funds from the Disaster Grants – Public Assistance programs without proper documentation of procurement procedures and without the required review and authorization of its pre-intervention personnel.

**Context:**

Finding 2012-II-1 on page 60 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 29 checks for a total of \$1,514,408 to contractors when the disbursement voucher authorizing the expenditure was not signed nor approved by the Municipality's pre-intervention personnel, as required by local regulations. Of these 24 checks, 9 checks totaling \$168,556 were for Disaster Grants activities. For more information, see Finding 2012-II-1.

One of these checks, check #3 totaling \$27,941 and used for the construction of a retention wall in a rural state road, did not include within its supporting documentation evidence of procurement procedures.

**Criteria:**

44 CFR §13.36 states that grantees and sub-grantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Section 8 of Chapter IV of the Municipal Administration Manual as issued by the Puerto Rico 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.

**Cause:**

This situation occurred because the Municipality did not solicit pricing from more than one contractor. The pre-intervention employee had objections toward each contractor's compliance with contract clauses and regulations, including the documentation of procurement. 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 documenting first the procurement process of the federal expenditure, and did not contain the proper authorization from the required personnel.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012

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

**2012-III-7, continued**

***Auditor's recommendation:***

The Municipality must not disburse any funds, whether federal or local, without first documenting the procurement process of the expenditure when it exceeds the federal or local small purchase threshold, whichever is lower. It must also not disburse funds 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 regulations are met.

Controls should be revised to deter such disbursements from occurring in the future. Additionally, the Municipality should obtain proper documentation justifying its procurement actions of the expenditures mentioned above, and for all future federal expenditures it incurs.

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

The Finance Director will take the necessary actions to assure that the Municipality does not disburse any funds without the required documentation, authorizations and signatures.

***Audit finding status:***

Unresolved.

**END OF SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

Year(s)	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
<b>(1) Audit Findings that have been fully corrected or not noted during our audit:</b>					
2011	2011-III-1	The Municipality did not include the require Davis-Bacon Act clause within its federally-funded construction contracts.	14.218	None.	All contracts observed included the required Davis-Bacon Act clause.
2009 to 2011	2009-III-1; 2010-III-2; 2011-III-2	The Municipality did not properly document or report required information for participants of the Section 8 program.	14.871	None.	This situation was not found in our review of tenant files in the current audit.
<b>(2) Audit Findings not corrected or partially corrected:</b>					
2007 to 2010	2007-5; 2008-4; 2009-III-4; 2010-III-6	Disbursement of SBGP funds without obtaining necessary approval and signature from Pre-Intervention personnel.	14.228	None.	This situation was found in our review of disbursements in the current audit. See finding 2012 -III-5 through 2012 III-7.

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

NONE.

**(4) Audit findings are no longer valid:**

NONE.

**END OF SCHEDULE**