

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

***BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITOR'S REPORT***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2009***



***Hon. Perza Rodriguez-Quñones
Mayor***

***Miss. Nereida Seda-Vargas
Finance Director***

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Cabo Rojo, 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 Cabo Rojo, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the Municipality of Cabo Rojo's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Cabo Rojo, Puerto Rico's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

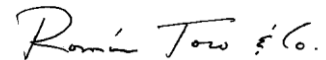
As more fully described in Note I to the financial statements, the Municipality of Cabo Rojo has not determined and accounted the landfill's closure and post closure care costs at June 30, 2009. The accompanying government-wide did not include the liability for these costs. Accounting principles generally accepted in the United States of America require that landfill's closure and post-closure costs are estimated and included as liability in the government-wide financial statement, which would decrease net assets, in the government-wide financial statements. The amount by which this departure would affect the net assets of the government-wide financial statement is not reasonable determinable.

In our opinion, except for the effects of not providing an adequate liability estimate of the landfill's closure and post closure care costs for the government-wide financial statement as described in the preceding paragraph, 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 Cabo Rojo, Puerto Rico, as of June 30, 2009, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009, on our consideration of the Municipality of Cabo Rojo, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 54 through 56, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Yauco, Puerto Rico
December 16, 2009

Stamp #2474111 was affixed to
the original of this report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

The following analysis of the financial performance of the Municipality of Cabo Rojo will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2009. It should be read in conjunction with the financial statements to obtain a better understanding of the financial position of this Municipality.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2009 by \$47,889,967 (net assets).
- Revenues decreased by 5% and expenses increased 12% in comparison with year 2008.
- The net change (decrease) in net assets amounted to \$1,937,572, a decrease of approximately 200% with respect to prior year positive net change of \$2,744,844.

Highlights for Fund Financial Statements

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

- At June 30, 2009, a net change (decrease) of \$1,910,480 in the fund balances of the Municipality's governmental funds resulted in a reported combined ending fund balances of \$14,099,278. This fund balance includes an unreserved deficit for the amount of \$150,374.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources (deficiency) of \$4,584,863 and an unreserved fund balance deficiency of \$137,021. Unreserved fund balance decreased 103% from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2009 was \$51,125,407 (net of depreciation).
- Long term debt increased to \$21,103,758. Approximately a 5% increase with respect to prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$2,983,001.

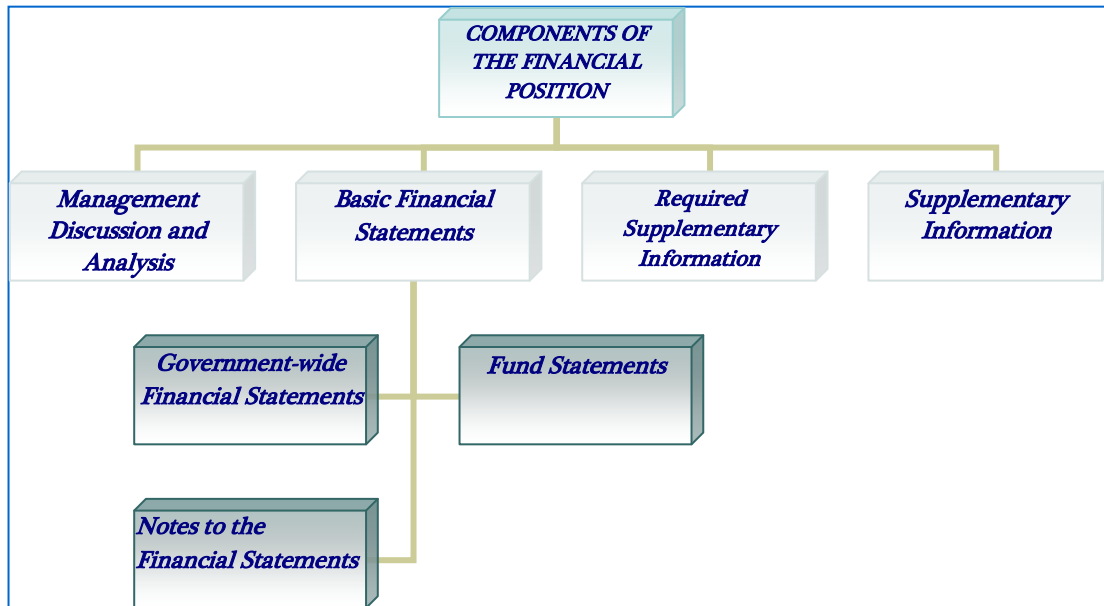
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial reporting comprises four components: (1) management discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) 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 capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the statement of activities – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

The government-wide statements reports as governmental activities the municipality's basic services such as public works and sanitation; public safety, culture and recreation, housing, welfare, and community development; education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

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

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

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

- ***Notes to the financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2009 and 2008:

TABLE 1

<i>Summary Statement of Net Assets As of June 30,</i>		
	Governmental Activities	
	2009	2008 (as restated)
Assets		
Current and other assets	\$ 22,833,101	\$ 24,519,481
Capital assets	51,125,407	50,196,677
Total assets	\$ 73,958,508	\$ 74,716,158
Liabilities		
Current and other liabilities	\$ 4,964,783	\$ 4,824,480
Long term liabilities	21,103,758	20,064,139
Total liabilities	26,068,541	24,888,619
Net assets		
Invested in capital assets, net of related debt	37,582,571	36,607,618
Restricted	13,890,956	11,567,850
Unrestricted	(3,583,560)	1,652,071
Total net assets	\$ 47,889,967	\$ 49,827,539

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year decreased 4% with respect to prior year. The most significant changes include a decrease in general revenues caused by a decrease in approximately \$925,000 in construction excise tax revenues (due to the general economic condition), a decrease in approximately \$400,000 in interest revenue (due to a decrease in interest rates and the use of prior years cash reserves) and an unexpected combined increase of approximately \$600,000 in public works and welfare expenses due to a rainfall disaster which occurred on September, 2008.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

As of June 30 2009 the Municipality presented an unrestricted (negative) net assets balance of \$3,583,560, which compared to prior year presents a significant decrease. The decrease in revenues and the increase in expenses previously discussed, along with a significant increase in the general government expenses are among the reasons for the significant change of the unrestricted net assets balance. The increase in general government expenses is caused primarily by a net increase in salaries and related payroll taxes and benefits, including compensated absences and retirement.

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2009 and 2008:

TABLE 2

<i>Summary of Changes in Net Assets As of June, 30</i>			
	Governmental Activities		
	2009	2008 (as restated)	
Program revenues:			
Fees, fines and charges for services	\$ 5,209,870	\$ 6,672,759	
Operating grants and contributions	3,826,044	2,626,869	
Capital grants and contributions	2,179,888	1,941,941	
General revenues:			
Property taxes	6,799,311	7,334,598	
Municipal license taxes	2,681,565	2,649,022	
Sales and use taxes	2,484,147	2,423,926	
Grants and contributions not restricted to specific programs	5,022,759	5,538,804	
Interest	429,572	872,216	
Other	237,122	213,993	
Total revenues	28,870,278	30,274,128	
Expenses:			
General government	9,068,100	6,423,774	
Public works and sanitation	12,363,568	11,944,643	
Public safety	2,651,785	3,058,316	
Culture and recreation	1,801,354	1,527,490	
Health	823,281	822,586	
Housing, welfare and community development	3,164,405	2,642,070	
Education	168,348	250,898	
Interest on long term debt	767,009	859,507	
Total expenses	30,807,850	27,529,284	
Change in net assets	(1,937,572)	2,744,844	
Net assets-beginning of year	49,827,539	47,082,695	
Net assets-end of year	\$ 47,889,967	\$ 49,827,539	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

FIGURE 1

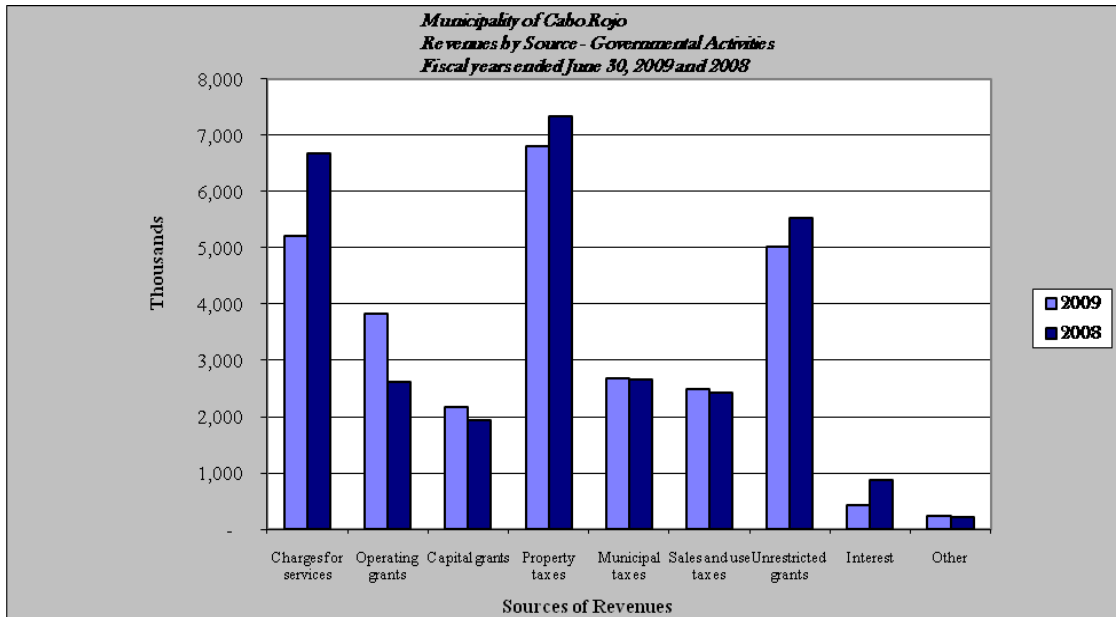
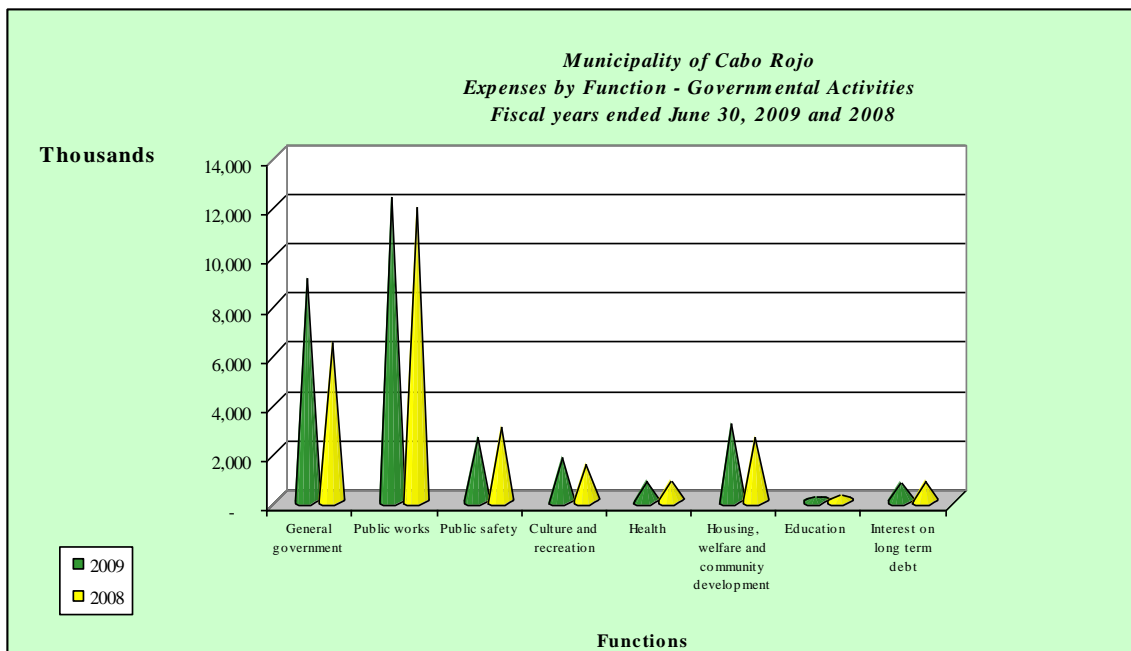


FIGURE 2



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

Approximately 24% of the Municipality's revenues came from property taxes, 18% from fees and charges for services, 17% from unrestricted grants, 13% from operating grants, 9% from municipal license taxes and 9% from sales and use taxes. The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 40%, general government with 29%, housing, welfare and community development with 10% and public safety with 9%. Program revenues of the Municipality covered 36% of total expenses.

With respect to prior year, revenues reported a net decrease of approximately 5%. This net decrease is primarily the net result of: (1) a 22% decrease in fees, fines and charges for services due to a decrease in the revenue from construction excise taxes, (2) 51% decrease in interest revenues due mainly from a decrease in interest rates and the use of prior years cash reserves due to the current year's financial downfall, (3) a 7% decrease in property taxes and (4) a 31% increase in operating and capital grants received due to significant increase in the Community Development Block Grant Program revenues, new permanent improvements grants received from the Commonwealth and new public assistance grants received during the year.

Expenses increased 12% in comparison with 2008 year. Significant increases were registered on general government with 41%, housing, welfare and community development with 20%, and public works and sanitation with 7%. The general increase in expenses was caused basically in areas such as salaries and related payroll expenses, repairs, maintenance on infrastructure and other municipal assets and welfare expenses due to the September 2008 rainfall disaster.

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

TABLE 3

<i>Net Cost of Municipality's Governmental Activities</i>				
<i>Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2009	2008 (as restated)	2009	2008 (as restated)
General government	\$ 9,068,100	\$ 6,423,774	\$ (6,601,249)	\$ (2,625,635)
Public works and sanitation	12,363,568	11,944,643	(6,206,960)	(6,027,997)
Public safety	2,651,785	3,058,316	(2,432,894)	(3,020,117)
Culture and recreation	1,801,354	1,527,490	(1,675,058)	(1,425,946)
Housing, welfare and community development	3,164,405	2,642,070	(1,116,807)	(1,453,329)
Other	1,758,638	1,932,991	(1,559,080)	(1,734,691)
	<u>\$ 30,807,850</u>	<u>\$ 27,529,284</u>	<u>\$ (19,592,048)</u>	<u>\$ (16,287,715)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$5,209,870) and other governments and organizations that subsidized certain programs with grants and contributions (\$6,005,932). The \$19,592,048 net cost of services was not fully covered by other general revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2009 the governmental funds reported combined ending fund balances of \$14,099,278, a net decrease of \$1,910,480 in comparison with the prior year. This decrease was caused primarily by a net change in the general fund of (\$4,584,863); \$552,482 in the debt service fund; (\$149,476) in the Commonwealth Legislative Resolutions Fund and \$2,271,377 in the other governmental funds. Of total combined fund balances, \$150,374 constitutes unreserved fund balance deficit. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund deficit of the general fund amounts to \$137,021. For the year ended June 30, 2009, the fund balance of the general fund decreased by \$4,584,863 when compared with the prior year. Of this net change \$1,125,426 pertains to other special funds (with self imposed restrictions) included as part of the general fund. The remaining of the change pertains to the 01 Fund, which is the main operating fund. There was a net decrease of \$904,377 in revenues due to a decrease of \$1,235,463 in fees, fines and charges for services, (mainly on construction excise taxes) an increase of \$331,928 in property taxes, a decrease of \$209,891 in intergovernmental revenues, and a decrease of \$167,667 in interest revenues. The net increase in expenditures of \$2,678,651 is due to increases of \$1,901,462, \$386,686 and \$318,928 in general government, public works and sanitation and public safety expenditures respectively due to increased administrative costs, (mainly in salaries, payroll taxes and benefits) intensive repairs and maintenance performed over Municipal capital assets and increased efforts toward security.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2008-2009 presented an increase of 9% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$414,707 due to additional collections of intergovernmental subsidies and fees, fines and charges for services. Budget expenditures were increased by \$2,425,707. Actual revenues did not reach the revised budgeted revenues by \$809,088. The most significant variances were in fees, fines and charges for services, (\$964,161); (\$413,929) in interests; and \$229,656 in property taxes.

There was a negative variance of \$14,594 between revised budget and actual expenditures. It was influenced mainly by negative budget variances of (\$100,714) and (\$86,430) in general government and public works and sanitation expenditures respectively, with positive budget variances of \$66,286, \$56,818 and \$48,355 in public safety, welfare and community development, and culture and recreation expenditures respectively. The negative variance in general government is due mainly by negative performance on insurance and state workmen insurance compensation expenditures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$51,125,407 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 2% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2009	2008 (as restated)
Non-depreciable assets:		
Land	\$ 3,461,491	\$ 3,258,738
Construction in progress	5,674,970	3,879,764
Depreciable assets:		
Land improvements	1,029,092	1,485,457
Buildings and buildings improvements	23,075,226	23,800,842
Infrastructure	12,840,738	12,806,047
Vehicles, machinery and equipment	5,043,890	4,965,829
Total	\$ 51,125,407	\$ 50,196,677

The Municipality's major capital projects that were still in construction as of June 30, 2009 are as follows:

- Construction of "Plaza de Artesanías" - \$2,420,240
- Construction of Municipal Gym - \$1,410,810
- Rehabilitation of Municipal Library - \$767,645
- Construction of a Convention Center (planning phase) - \$486,858

Construction in progress increased mostly by the additions performed over the "Plaza de Artesanías" (\$768,041), Municipal Gym (\$503,659), improvements over the existing Municipal Landfill (\$216,817), reconstruction of "Joyuda" Basketball court (\$112,650), and other minor projects commenced during the fiscal year 2008-2009. Land increased mostly by the acquisition of a land parcel for the amount of \$210,000, for the future construction of a basketball court in the "Betances" ward.

**COMMONWEALTH OF PUERTO RICO
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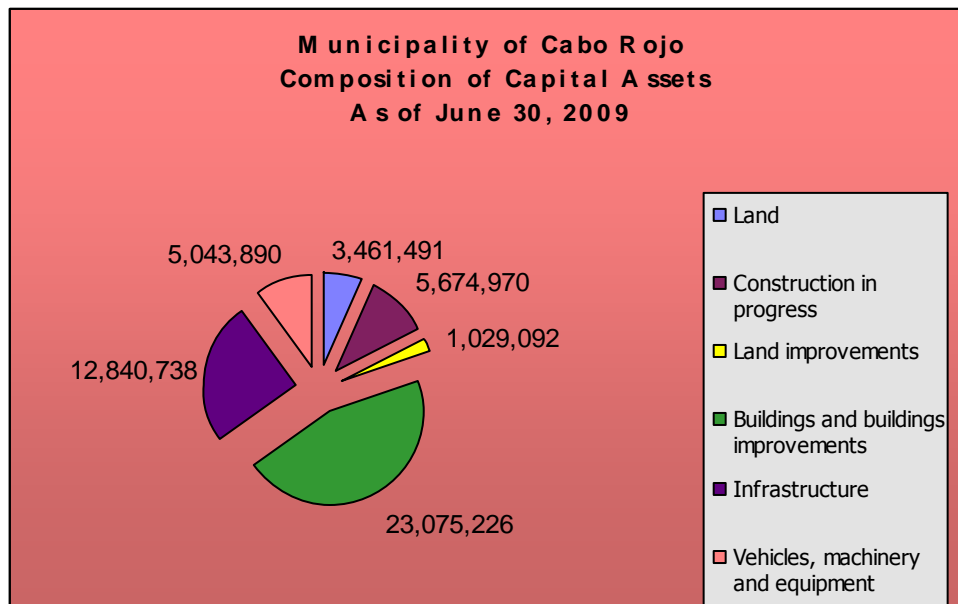
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

The Municipality acquired a total of \$676,358 in vehicles, machinery and equipment during the fiscal year 2008-2009, including one small truck for \$28,382, seven vehicles for a combined amount of \$147,309, one item of heavy equipment for a total amount of \$55,968, seven copiers for a combined amount of \$186,821 and one suction pump for \$20,500.

The Municipality's fiscal year 2009-2010 consolidated capital budget calls for a significant amount of new and continuous projects including the completion of the construction of "Plaza Artesanías", the completion of the construction of the Municipal Gym, the completion of the planning phase and the beginning of the construction of a Convention Center, and the continuous improvements over the Municipal landfill. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds.

Capital assets composition as of June 30, 2009 follows:



More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

Long term debt

At year-end, the Municipality had \$15,267,055 in general and special bonds and notes, an increase of 3% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2009 and 2008:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

TABLE 5

<i>Outstanding Long-term Debt As of June 30,</i>		
	Governmental Activities	
	2009	2008
General and special obligation bonds and notes	\$ 15,267,055	\$ 14,799,055
Note payable to CRIM - LIMS	212,569	289,247
Note Payable to CRIM – prior years delinquent accounts	306,689	320,023
Note payable to Puerto Rico Department of Labor	-	34,825
Note payable to Puerto Rico Solid Waste Authority	13,466	20,353
Note payable to solid waste land site contractor	583,657	776,540
Note payable to PR Employee Retirement System	35,456	83,950
Obligation under capital leases	160,911	6,156
Compensated absences	3,521,859	3,001,484
Christmas Bonus	421,275	401,821
Claims and judgments	134,000	52,000
Payable to CRIM – property tax advances	84,575	-
Payable to PREPA	362,246	278,685
Total	<u>\$ 21,103,758</u>	<u>\$ 20,064,139</u>

The net increase in the general and special obligation bonds and notes was mostly affected by a new bond issuance during fiscal year ended June 30, 2009. The \$1,850,000 new bond issuance was primarily for the expansion and pavement of existent roads and the reconstruction of the roads affected by the September, 2008 rainfalls disaster. The increase in the obligation under capital leases was the result of a new lease for the amount of \$186,821 entered to for the acquisition of seven new copiers for various departments within the Municipality. The increase in the note payable to Puerto Rico Electric Power Authority (PREPA) is the result of a new debt during the year. More detailed information about the Municipality's long term liabilities is presented in Note H to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2009-2010 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 13.4%, which compares with the Commonwealth rate of 15.2%.

**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2009

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2009-2010 are \$19,823,609, an increase of approximately 0.3% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. In addition to the estimated budget for the general fund, the Municipality has submitted Federal and Commonwealth funds proposals for welfare and community development as well as for capital improvements and public works funds. The construction industry has been one of the major sources of income generated by the Municipality, in the construction of personal housing, contributing with construction taxes. Management believes that this contribution level will be maintained in the next year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at PO Box 1380, Cabo Rojo, Puerto Rico 00623.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF NET ASSETS
JUNE 30, 2009**

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 3,357,247
Receivables, net:	
Municipal license taxes	21,323
Sales and use taxes	157,333
Rents and construction permits	221,176
Due from:	
Commonwealth Government (Note C)	1,724,022
Federal Government (Note C)	349,544
Restricted assets:	
Cash and cash equivalents	9,193,493
Cash with fiscal agents	6,758,278
Deferred bond issuance costs	64,685
Other assets (Note E)	986,000
Capital assets (Note F):	
Land and construction in progress	9,136,461
Other capital assets, net	<u>41,988,946</u>
Total capital assets, net	<u>51,125,407</u>
Total assets	<u>\$73,958,508</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 2,577,887
Interest payable	361,419
Due to:	
Commonwealth Government	152,161
Deferred revenues:	
Municipal license taxes	1,864,763
Federal grants	8,553
Long term liabilities (Note H) :	
Due within one year	3,103,112
Due in more than one year	<u>18,000,646</u>
Total liabilities	<u>26,068,541</u>
NET ASSETS	
Invested in capital assets, net of related debt	37,582,571
Restricted for:	
Capital projects	8,193,014
Debt service	3,832,094
Other specified purposes	1,865,848
Unrestricted	<u>(3,583,560)</u>
Total net assets	<u>\$47,889,967</u>

The accompanying notes are an integral part of this statement

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2009**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Change in Net Assets</u>
		<u>Fees, Fines and Charges for services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 9,068,100	\$1,988,188	\$ 180,532	\$ 298,131	\$(6,601,249)
Public works and sanitation	12,363,568	2,997,488	1,738,479	1,420,641	(6,206,960)
Public safety	2,651,785	-	218,891	-	(2,432,894)
Culture and recreation	1,801,354	126,296	-	-	(1,675,058)
Health	823,281	-	-	-	(823,281)
Housing, welfare and community development	3,164,405	97,898	1,488,584	461,116	(1,116,807)
Education	168,348	-	199,558	-	31,210
Interest on long term debt	<u>767,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(767,009)</u>
Total	<u>\$30,807,850</u>	<u>\$5,209,870</u>	<u>\$3,826,044</u>	<u>\$2,179,888</u>	<u>\$(19,592,048)</u>
General revenues:					
Taxes:					
					6,799,311
					2,681,565
					2,484,147
					5,022,759
					429,572
					148,931
					<u>88,191</u>
					<u>17,654,476</u>
					(1,937,572)
					<u>49,827,539</u>
					<u>\$47,889,967</u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	Major Funds					Total Governmental Funds
	General	Community Development Block Grant Program	Debt Service	Commonwealth Legislative Resolutions	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$3,357,247	\$ -	\$ -	\$ -	\$ -	\$ 3,357,247
Receivables, net:						
Municipal license taxes	21,326	-	-	-	-	21,326
Sales and use taxes	157,333	-	-	-	-	157,333
Rents and construction permits	216,091	-	-	-	-	216,091
Other	-	-	-	-	5,085	5,085
Due from:						
Commonwealth Government	743,898	-	422,240	181,534	376,350	1,724,022
Federal Government	-	246,075	-	-	103,469	349,544
Other funds (Note D)	369,079	-	-	-	-	369,079
Restricted assets:						
Cash and cash equivalents	-	1,010	-	5,969,552	3,222,931	9,193,493
Cash with fiscal agents	-	-	<u>3,784,825</u>	-	<u>2,973,453</u>	<u>6,758,278</u>
Total assets	<u>\$4,864,974</u>	<u>\$247,085</u>	<u>\$4,207,065</u>	<u>\$6,151,086</u>	<u>\$6,681,288</u>	<u>\$22,151,498</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	Major Funds					Total Governmental Funds
	General	Community Development Block Grant Program	Debt Service	Commonwealth Legislative Resolutions	Other Governmental Funds	
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$1,330,119	\$237,193	\$ -	\$ 360,081	\$ 650,494	\$ 2,577,887
Matured debt and interest payable	244,000	-	-	-	-	244,000
Matured bonds and interest payable	-	-	1,511,538	-	-	1,511,538
Due to:			-			
Commonwealth Government	152,161	-	-	-	-	152,161
Other funds		9,882	-	277,820	81,377	369,079
Deferred revenues:						
Municipal license taxes (Note K)	1,864,763	-	-	-	-	1,864,763
Intergovernmental-Commonwealth Government (Note G)	711,198	-	30,000	181,534	345,150	1,267,882
Federal grants	-	13,363	-	-	32,858	46,221
Others	<u>14,541</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,148</u>	<u>18,689</u>
Total liabilities	<u>4,316,782</u>	<u>260,438</u>	<u>1,541,538</u>	<u>819,435</u>	<u>1,114,027</u>	<u>8,052,220</u>
Fund balances (deficits):						
Reserved for:						
Encumbrances	141,024	-	-	-	-	141,024
Debt service	-	-	2,665,527	-	-	2,665,527
Capital projects	-	-	-	5,331,651	4,706,758	10,038,409
Other specified purposes	544,189	-	-	-	860,503	1,404,692
Unreserved	<u>(137,021)</u>	<u>(13,353)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,374)</u>
Total fund balances (deficits)	<u>548,192</u>	<u>(13,353)</u>	<u>2,665,527</u>	<u>5,331,651</u>	<u>5,567,261</u>	<u>14,099,278</u>
Total liabilities and fund balances (deficits)	<u>\$4,864,974</u>	<u>\$ 247,085</u>	<u>\$4,207,065</u>	<u>\$ 6,151,086</u>	<u>\$6,681,288</u>	<u>\$ 22,151,498</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances:		\$14,099,278
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		51,125,407
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred bond issuance costs	\$ 64,685	
Other assets	<u>986,000</u>	1,050,685
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Receivables:		
P.R. Department of Treasury - Christmas bonus reimbursement	210,638	
CRIM - Property taxes (General Fund)	60,561	
CDBG - Federal Grants	13,353	
Commonwealth Legislative Resolutions	181,534	
Solid Waste Authority - grant for municipal landfill	275,000	
Sales Taxes (Debt Service Fund)	30,000	
Sales Taxes (Municipal Development Fund)	14,541	
P.R. Department of Labor (Law 52 and Law 82 Funds)	77,751	
P.R. Department of Education	41,600	
P.R. Electric Power Authority (PREPA)	362,246	
Other grants and miscellaneous receivables	<u>57,013</u>	1,324,237
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:		
		(18,433)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds and notes	14,082,057	
Note payable to CRIM-LIMS	212,568	
Note payable to CRIM-financing of delinquent accounts	306,689	
Note payable to ADS	13,466	
Note payable to solid waste landfill site contractor	356,105	
Note payable to ERS	35,456	
Obligation under capital leases	160,911	
Compensated absences	3,521,859	
Christmas bonus	421,275	
Judgements and Claims	134,000	
Payable to CRIM (property tax advances)	84,575	
Payable to P.R. Electric Power Authority (PREPA)	<u>362,246</u>	<u>(19,691,207)</u>
Net assets of governmental activities:		<u>\$ 47,889,967</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2009

	Major Funds					Total Governmental Funds
	General	Community Development Block Grant Program	Debt Service	Commonwealth Legislative Resolutions	Other Governmental Funds	
Revenues:						
Taxes:						
Property taxes (Note J)	\$ 4,811,367	\$ -	\$2,159,501	\$ -	\$ -	\$ 6,970,868
Municipal license taxes (Note K)	2,681,565	-	-	-	-	2,681,565
Sales and use taxes (Note L)	2,005,180	-	465,598	-	-	2,470,778
Intergovernmental (Note M):						
Commonwealth government	7,566,639	-	-	808,792	1,815,652	10,191,083
Federal government	-	1,533,772	-	-	1,529,585	3,063,357
Fees, fines and charges for services	2,811,312	-	-	-	-	2,811,312
Interest	121,175	-	23,077	152,455	132,865	429,572
Other	<u>49,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,659</u>
Total Revenues	20,046,897	1,533,772	2,648,176	961,247	3,478,102	28,668,194
Expenditures:						
Current:						
General government	7,921,294	299,131	-	-	55,694	8,276,119
Public works and sanitation	9,302,036	249,333	-	2,309	1,082,115	10,635,793
Public safety	2,461,633	-	-	-	68,486	2,530,119
Culture and recreation	1,227,970	-	-	-	27,385	1,255,355
Health	823,281	-	-	-	-	823,281
Housing, welfare and community development	2,035,653	460,716	-	400	571,732	3,068,501
Education	35,892	-	-	-	126,439	162,331
Capital outlays	1,178,748	524,592	-	955,559	984,310	3,643,209
Debt service:						
Principal	-	-	1,362,000	-	-	1,362,000
Interest	-	-	711,746	-	-	711,746
Bond issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,699</u>	<u>7,699</u>
Total expenditures	<u>24,986,507</u>	<u>1,533,772</u>	<u>2,073,746</u>	<u>958,268</u>	<u>2,923,860</u>	<u>32,476,153</u>
Excess (deficiency) of revenues over expenditures	(4,939,610)	-	574,430	2,979	554,242	(3,807,959)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Major Funds</u>					<u>Total Governmental Funds</u>
	<u>General</u>	<u>Community Development Block Grant Program</u>	<u>Debt Service</u>	<u>Commonwealth Legislative Resolutions</u>	<u>Other Governmental Funds</u>	
Other financing sources (uses):						
Proceeds from general obligation bonds	-	-	-	-	1,850,000	1,850,000
Proceeds from capital lease	186,821	-	-		-	186,821
Payment of debt to P.R. Electric Power Authority (PREPA)	(139,342)	-	-	-	-	(139,342)
Transfers in	307,268	-	-	-	619,667	26,935
Transfers out	-	-	(21,948)	(152,455)	(752,532)	(926,935)
Total other financing sources (uses)	<u>354,747</u>	<u>-</u>	<u>(21,948)</u>	<u>(152,455)</u>	<u>1,717,135</u>	<u>1,897,479</u>
Net change in fund balance	(4,584,863)	-	552,482	(149,476)	2,271,377	(1,910,480)
Fund balances at beginning of year	<u>5,133,055</u>	<u>(13,353)</u>	<u>2,113,045</u>	<u>5,481,127</u>	<u>3,295,884</u>	<u>6,009,758</u>
Fund balances (deficit) at end of year	<u>\$ 548,192</u>	<u>\$(13,353)</u>	<u>\$2,665,527</u>	<u>\$5,331,651</u>	<u>\$5,567,261</u>	<u>\$14,099,278</u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2009**

Net change in fund balances-total governmental funds: **\$ (1,910,480)**

Amounts reported for governmental activities in the Statement of activities are different because:

Governmental funds reports capital assets 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:

Expenditures for capital assets	\$ 3,643,211	
Less: current year depreciation	<u>(2,821,408)</u>	821,803

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed assets: (132,425)

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

P.R. Department of Treasury - Christmas bonus reimbursement (current)	210,638	
CRIM - Property taxes (General Fund)	60,561	
Commonwealth Legislative Resolutions	20,285	
Solid Waste Authority - grant for municipal landfill	275,000	
Sales Taxes (Debt Service Fund)	30,000	
Sales Taxes (Municipal Development Fund)	14,541	
P.R. Department of Education	41,600	
P.R. Electric Power Authority (PREPA)	362,246	
Other grants and miscellaneous receivables	77,751	
Donated capital assets	<u>239,352</u>	1,331,974

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

P.R. Department of Treasury - Christmas bonus reimbursement (prior year)	(200,910)	
CRIM - Property taxes General Fund (prior year)	(232,118)	
Commonwealth Legislative Resolutions	(182,961)	
P.R. Department of Labor (Law 52 Fund)	(74,624)	
P.R. Department of Education ("Cons. Rutinaria Escuelas")	(20,825)	
Sales Taxes (Special Funds in General Fund)	(15,492)	
Proceeds from capital lease	<u>(186,820)</u>	(913,750)

Proceeds from general obligation bonds is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets: (1,850,000)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
(CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2009**

Proceeds from the financing of other long term debt is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		(186,821)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		(20,000)
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	1,382,000	
Other long term liabilities	<u>1,248,201</u>	2,630,201
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	7,699	
Amortization of bond issuance costs	<u>(7,870)</u>	(171)
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 the governmental funds:		
Compensated absences	(864,210)	
Christmas bonus	(421,275)	
Judgements and Claims	(122,000)	
CRIM (property tax advances)	(84,575)	
Payable to PREPA	(222,903)	
Accrued interest (net change)	4,864	
Other miscellaneous expenses	<u>2,196</u>	<u>(1,707,903)</u>
Change in net assets of governmental activities:		<u>\$ (1,937,572)</u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cabo Rojo was founded in 1771. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of Cabo Rojo (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. *Basis of presentation, measurement focus and basis of accounting*

The financial report of the Municipality consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures (for Commonwealth Legislature Resolutions Fund and Debt Service Fund) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Community Development Block Grant Program Fund). The Municipality reports the following major governmental funds:

General Fund: The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted in another fund.

Community Development Block Grant Program Fund (CDBG): CDBG fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Commonwealth Legislative Resolutions Fund: Commonwealth Legislative Resolutions fund is used to account for revenue sources to be used for the construction and improvement of capital facilities and for welfare purposes.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met, and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized at the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: 1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) 2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. *Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents*

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the Commonwealth Legislative Resolutions Fund and Other Governmental Funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

5. *Interfund 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 from/to 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 from/to other funds".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

7. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$1,000 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	20-50
Infrastructure	20-40
Vehicles, machinery and equipment	5-15

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

8. *Long-term obligations*

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. *Deferred bond issuance costs*

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997, the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

11. *Fund balances and Net Assets*

a. Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.

Debt Service: Represents net assets available to finance future debt service payments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Projects: Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.

Other specified purposes: Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments

Fund balance unreserved-designated represents amounts that Management has identified for future spending and not legally segregated.

b. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net assets: Represents net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

Unrestricted net assets: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

12. *Interfund transactions*

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. *Risk financing*

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

14. *Use of estimates*

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

15. *Future adoption of accounting pronouncements*

The GASB has issued the following statements, which the Municipality has not yet adopted:

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
51 Accounting and Financial Reporting for Intangible Assets	June 30, 2010
53 Accounting and Financial Reporting for Derivative Instruments	June 30, 2010
54 Fund Balance Reporting and Governmental Fund Type Definition	June 30, 2011

The impact of these statements in the Municipality's basic financial statements has not yet been determined.

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to \$12,564,431. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year end the Municipality's bank balance in governmental banks amounts to \$9,012,847.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2009 follows:

	Commonwealth Government	Federal Government
Municipal Revenue Collection Center (CRIM) – property taxes and intergovernmental subsidy (general fund)	\$ 60,561	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	331,266	-
P.R. Department of Treasury – Christmas bonus reimbursement	210,638	-
P.R. Department of Treasury – sales and use taxes-Municipal Development fund (general fund)	28,557	-
P.R. Department of Treasury – sales and use taxes (debt service fund)	90,974	-
P.R. Department of Education	101,350	-
P.R. Department of Labor – Law No. 52	41,327	-
P.R. Department of Labor – Law No. 82	40,569	-
Commonwealth Legislative Resolutions	181,534	-
P.R. Electric Power Authority (PREPA)	362,246	-
P.R. Solid Waste Management Authority	275,000	-
Others	-	50,769
US Department of Homeland Security	-	52,700
US Department of Housing and Urban Development - CDBG	-	246,075
	\$ 1,724,022	\$ 349,544

See note G for detail of amounts due from Governmental Entities recorded as deferred revenue.

2. Amounts due to governmental entities as of June 30, 2009 follows:

	Commonwealth Entities
Employees' Retirement System of the Government of P.R. (ERS)	\$ 141,647
P.R. Aqueduct and Sewer Authority (PRASA)	8,872
P.R. General Services Administration	1,642
	\$ 152,161

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds:

Amounts due from/to other funds represent temporary advances to other funds by the general fund for payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major fund:	
	CDBG	\$ 9,882
	Major fund:	
	Commonwealth Legislature Resolutions	277,820
	Other governmental funds:	
	P.R. Traffic Safety Commission	23,830
	\$1,850,000 Bond Issuance	9,352
	Child Care Program and summer camp	31,089
	Infrastructure – PREPA Special Fund	15,906
	Others	1,200
Total:		\$ 369,079

2. Transfers in (out):

Transfers between individual funds were made for operational purposes. Transfers include: interest earned on restricted cash with fiscal agents in the debt service fund, on restricted cash in the Commonwealth legislative resolutions fund and on operating and capital improvement loans in other governmental funds which is transferred to the general fund; and principal and interest payments of general long term debt transferred from the general fund to the debt service fund.

NOTE E – OTHER ASSETS

Other assets include a \$986,000 deposit in a Commonwealth’s court of justice for the acquisition of a parcel of land.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE F - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008 as restated	Increases	Decreases	Balance June 30, 2009
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 3,258,738	\$ 210,700	\$ 7,947	\$ 3,461,491
Construction in progress	<u>3,879,764</u>	<u>2,036,824</u>	<u>241,618</u>	<u>5,674,970</u>
Total capital assets not being depreciated:	7,138,502	2,247,524	249,565	9,136,461
Capital assets, being depreciated:				
Land improvements	2,601,182	125,831	-	2,727,013
Buildings and building improvements	29,654,515	27,908	44,290	29,638,133
Infrastructure	19,506,189	1,046,560	200,786	20,351,963
Vehicles, machinery and equipment	<u>9,274,251</u>	<u>676,358</u>	<u>4,686</u>	<u>9,945,923</u>
Total capital assets being depreciated	61,036,137	1,876,657	249,762	62,663,032
Less accumulated depreciation for:				
Land improvements	1,115,725	582,196	-	1,697,921
Buildings and building improvements	5,853,673	728,002	18,768	6,562,907
Infrastructure	6,700,142	912,913	101,830	7,511,225
Vehicles, machinery and equipment	<u>4,308,422</u>	<u>598,297</u>	<u>4,686</u>	<u>4,902,033</u>
Total accumulated depreciation	17,977,962	2,821,408	125,284	20,674,086
Total capital assets being depreciated, net	<u>43,058,175</u>	<u>(944,751)</u>	<u>124,478</u>	<u>41,988,946</u>
Governmental activities capital assets, net	<u>\$ 50,196,677</u>	<u>\$ 1,302,773</u>	<u>\$ 374,043</u>	<u>\$ 51,125,407</u>

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$ 317,220
Public works and sanitation	1,734,601
Public safety	121,666
Culture and recreation	545,999
Welfare and community development	95,904
Education	<u>6,018</u>
Total depreciation expense, governmental activities	<u>\$ 2,821,408</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE G - DEFERRED REVENUES – GOVERNMENTAL FUNDS

Deferred revenues for amounts due from Commonwealth Government represent revenues not available as required by current standards and for amounts due from Federal Grants represent resources received before allowable expenditures are incurred or not available as required by current standards. A detail of these balances follows:

	Commonwealth Government	Federal Grants
<u>Major fund - general fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	\$ 60,561	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	210,638	-
P.R. Department of Labor – Law No. 52	37,184	-
P.R. Department of Labor – Law No. 82	40,569	-
P.R. Electric Power Authority (PREPA)	362,246	-
<u>Major fund – debt service fund:</u>		
P.R. Department of Treasury – sales and use taxes (debt service fund)	30,000	-
<u>Major fund – Commonwealth Legislature resolutions fund:</u>		
Commonwealth Legislative Resolutions	181,534	-
<u>Major fund – Community Development Block Grant fund:</u>		
US Department of Housing and Urban Development – CDBG	-	13,363
<u>Other governmental funds:</u>		
P.R. Solid Waste Management Authority	275,000	-
P.R. Department of Education	70,150	-
P.R. Traffic Safety Commission	-	23,831
Office of Elderly Affairs	-	8,543
Others	-	484
	\$ 1,267,882	\$ 46,221

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2009:

	<u>Balance at July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 14,799,055	\$ 1,850,000	\$ 1,382,000	\$ 15,267,055	\$ 1,334,000
Note payable to CRIM-LIMS	289,247	-	76,678	212,569	81,308
Note payable to CRIM - Financing of delinquent accounts	320,023	-	13,334	306,689	13,334
Note payable to P.R. Department of Labor	34,825	-	34,825	-	-
Note payable to P.R. Solid Waste Authority	20,353	-	6,887	13,466	7,246
Note payable to solid waste landfill contractor	776,540	-	192,883	583,657	583,657
Note payable to ERS	83,950	-	48,494	35,456	35,456
Obligation under capital leases	6,156	186,821	32,066	160,911	35,661
Compensated absences	3,001,484	864,210	343,835	3,521,859	317,832
Christmas bonus	401,821	421,275	401,821	421,275	421,275
Claims and judgments	52,000	122,000	40,000	134,000	134,000
Payable to PREPA	278,685	222,903	139,342	362,246	139,343
Payable to CRIM-excess of property tax advances over actual collections	-	84,575	-	84,575	-
	<u>\$ 20,064,139</u>	<u>\$ 3,751,784</u>	<u>\$ 2,712,165</u>	<u>\$ 21,103,758</u>	<u>\$ 3,103,112</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT - Continued

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2009 amount to \$15,267,055. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued.

A detail of the general and special obligation bonds and notes as of June 30, 2009 follows:

	<u>Outstanding Amount</u>
1985 public improvement bonds of \$300,000 due in annual installments ranging from \$4,000 to \$22,000 through January 1, 2011; bearing interest at 6.125%	\$ 43,055
1992 public improvement bonds of \$880,000 due in annual installments ranging from \$20,000 to \$61,000 through January 1, 2016; bearing interest at 5%	369,000
1993 public improvement bonds of \$454,000 due in annual installments ranging from \$10,000 to \$32,000 through January 1, 2017; bearing interest at 5%	214,000
1996 public improvement bonds of \$105,000 due in annual installments ranging from \$5,000 to \$10,000 through July 1, 2010; bearing interest at rates ranging from 4.70% to 6.63% (6.20% at June 30, 2009)	20,000
1997 public improvement bonds of \$765,000 due in annual installments ranging from \$15,000 to \$75,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58% (6.20% at June 30, 2009)	445,000
1997 general obligation notes of \$1,735,000 due in annual installments ranging from \$40,000 to \$165,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58% (6.20% at June 30, 2009)	1,015,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT - Continued

1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 4.865% to 6.56% (5.78% at June 30, 2009)	655,000
1999 general obligation bonds of \$1,310,000 due in annual installments ranging from \$50,000 to \$140,000 through July 1, 2013; bearing interest rates ranging from 4.865% to 6.11% (5.78% at June 30, 2009)	605,000
2000 general obligation bonds of \$2,040,000 due in annual installments ranging from \$80,000 to \$215,000 through July 1, 2014; bearing interest rates ranging from 2.70% to 7.81% (4.10% at June 30, 2009)	1,085,000
1995 general obligation bonds of \$500,000 due in annual installments ranging from \$40,000 to \$61,000 through January 1, 2010; bearing interest at 4.875%	61,000
2003 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest rates ranging from 2.70% to 5.60% (4.10% at June 30, 2009)	3,785,000
2004 general obligation bonds of \$305,000 due in annual installments ranging from \$35,000 to \$50,000 through July 1, 2010; bearing interest rates ranging from 5.00% to 6.00% (4.38% at June 30, 2009)	100,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest rates ranging from 2.36% to 5.00% (4.38% at June 30, 2009)	450,000
2004 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest rates ranging from 2.36% to 5.00% (4.38% at June 30, 2009)	480,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT - Continued

2004 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest rates ranging from 5.00% to 6.00% (4.38% at June 30, 2009)	895,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$40,000 to \$65,000 through July 1, 2014; bearing interest rates ranging from 3.28% to 5.00% (4.38% at June 30, 2009)	335,000
2006 general obligation bonds of \$850,000 due in annual installments ranging from \$100,000 to \$145,000 through July 1, 2012; bearing interest rates ranging from 6.25% to 7.25% (2.43% at June 30, 2009)	530,000
2006 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2030; bearing interest rates ranging from 4.17% to 5.33% (4.38% at June 30, 2009)	340,000
2006 general obligation note of \$1,775,000 due in annual installments ranging from \$200,000 to \$315,000 through July 1, 2013; bearing interest rates ranging from 6.60% to 7.50% (2.43% at June 30, 2009)	1,360,000
2007 general obligation note of \$710,000 due in annual installments ranging from \$80,000 to \$125,000 through July 1, 2014; bearing interest rates ranging from 3.93% to 7.50% (2.43% at June 30, 2009)	630,000
2008 general obligation note of \$1,850,000 due in annual installments ranging from \$45,000 to \$175,000 through July 1, 2028; bearing interest rates ranging from 2.43% to 7.50% (2.43% at June 30, 2009)	<u>1,850,000</u>
	<u>\$ 15,267,055</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT - Continued

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2009 follows:

June 30	Principal	Interest
2010	\$ 1,334,000	\$ 863,317
2011	1,358,055	783,233
2012	1,365,000	701,216
2013	1,463,000	616,024
2014	1,412,000	529,310
2015-2019	3,180,000	1,876,904
2020-2024	2,640,000	1,123,716
2025-2029	2,315,000	293,821
2030-2031	200,000	2,510
Totals	\$ 15,267,055	\$ 6,790,051

3. Other long-term liabilities

**Outstanding
Amount**

Note payable to CRIM (LIMS) – On July 24, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$691,648 for the payment of the Municipality's share of the cost of a management information system (**LIMS**) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$46,382, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

\$ 212,569

June 30	Principal	Interest
2010	\$ 81,308	\$ 11,053
2011	86,218	6,119
2012	45,043	1,117
Totals	\$ 212,569	\$ 18,289

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT - Continued

Note payable to CRIM (Financing of delinquent accounts)– On March 15, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$960,664 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first 5 years any collection from those delinquent accounts was credited to the loan principal. After the 5 year period the loan outstanding balance was restructured for a 25 years period. Debt service requirements in future years are as follows:

\$ 306,689

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 13,334	\$ 19,447
2011	13,334	18,847
2012	13,334	18,227
2013	13,334	17,589
2014	13,334	16,931
2015-2019	66,671	74,038
2020-2024	66,671	54,221
2025-2029	66,671	31,124
2030-2032	40,006	6,024
Totals	<u>\$ 306,689</u>	<u>\$ 256,448</u>

Note payable to Puerto Rico Solid Waste Authority – On February 10, 2006 the Municipality entered into a financing agreement with the PR Solid Waste Authority for a total amount of \$50,256 for goods and services provided by this Authority to the Municipality in prior years. The agreement is in the form of a non-interest bearing note (imputed interest of 5.09%) payable in monthly installments of \$647, and a final payment of \$1,827 due in February, 2011. The note balance as of June 30, 2009 is net of an unamortized discount of \$655 and is being paid from unrestricted funds. The principal and discount amortization (recorded as interest expense) maturities are as follows:

\$ 13,466

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT – Continued

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 7,246	\$ 518
2011	6,220	137
Totals	<u>\$ 13,466</u>	<u>\$ 655</u>

Note payable to solid waste landfill site contractor– On July 22, 2006 the Municipality entered into an agreement with the administrator of the Municipal Solid Waste Landfill (MSWL) for a total amount of \$2,439,000 for capital improvements to be done for the purpose to increase the capacity and useful life of the MSWL. The agreement includes a first payment of \$975,000 due at the end of the improvement (the improvement ended in May, 2006). The remaining balance was financed through a non-interest bearing note (imputed interest of 5.09%) beginning one month after the first payment and is payable in monthly installments of \$30,500 due in June, 2010. The note balance at June 30, 2009 is net of an unamortized discount of \$26,343 and is being paid from unrestricted funds. The principal and discount amortization (recorded as interest expense) maturities is as follows:

\$ 583,657

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 583,657	\$ 26,343
Totals	<u>\$ 583,657</u>	<u>\$ 26,343</u>

The June 30, 2010 annual requirement includes a matured amount of \$244,000 (principal of \$227,551 and interest of \$16,449) due as of June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H - LONG TERM DEBT – Continued

Note payable to Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). –

On June 29, 2007 the Board of Trustees of the Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) approved Resolution No. 2007-02 authorizing the ERS to establish payment plans with employers related to the application of certain “Special Laws” issued by the Commonwealth Government. Those Special Laws granted increases in pensions to retired employees of the Municipality. This obligation was recognized by the Municipality prior to June 30, 2007. On September 30, 2007 the Municipality refinanced this debt on a long term basis through a \$161,801 non-interest bearing note with the ERS. The note has an imputed interest rate is 6.48% and was recorded at its present value of \$134,960 net of an unamortized discount of \$10,661. The note is payable in annual installments of \$53,934 (including interest), is due on January 30, 2010 and will be repaid with unrestricted funds. Debt service requirements in future years are as follows:

\$ 35,456

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 35,456	\$ 2,298
Totals	<u>\$ 35,456</u>	<u>\$ 2,298</u>

Obligation under capital lease – The Municipality is obligated under capital leases with a third party that expires on 2013. As of June 30, 2009 the capitalized cost of capital leased equipment amounted to \$186,821 and is being paid in monthly installments of \$3,410 including interest at 5.00%.

\$ 160,911

The present value of future minimum lease payments of the lease as of June 30, 2009 follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 40,916
2011	40,916
2012	40,916
2013	51,145
Less: Amount representing interest	<u>(12,982)</u>
Present value of minimum lease payments	<u>\$ 160,911</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE H- LONG TERM DEBT - Continued

Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds	\$ 3,521,859
Christmas Bonus - represent the accrued portion corresponding to fiscal year 2008-2009 of the Christmas bonus to be paid in December 2009	\$ 421,275
Claims and judgments - represent the final settlement of legal cases paid subsequent to June 30, 2009. The awarded amount will be paid with unrestricted funds.	\$ 134,000
Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2006-2007 the excess of \$418,027 of the Municipality's annual energy charges over the CELI obligation determined by PREPA was recorded as a payable to the Municipality and will be amortized over a 3 year period against the corresponding receivable for the same amount. As of June 30, 2009 the outstanding amount of \$139,343 is recognized by the Municipality as a receivable and a liability to PREPA. Also, as communicated by PREPA, the excess amount of \$222,903 corresponding to fiscal year 2007-2008 was also recorded as a payable and a receivable for the same amount. No amortization period was established by PREPA. Debt service requirements in future years are as follows:	\$ 362,246

June 30	Principal
2010	\$ 139,343
2011-2015	222,903
Totals	\$ 362,246

Payable to CRIM, property tax advances – represent amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes. (See related note J) Amount will be paid with unrestricted funds.	\$ 84,575
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

The Municipality discontinued the operation and ceased to accept solid waste in one of its two landfills. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance procedures at the landfill site for thirty years after closure. The closure and post closure care procedures are being assumed by the Municipality. As guidance for calculation of total closure costs, the Municipality utilized an estimate provided by the Puerto Rico Solid Waste Disposal Authority. The Municipality is required to provide post closure care after the closure is completed. Total post closure care costs has not been determined and accounted as required by accounting principles generally accepted in the United States as of June 30, 2009.

The Municipality also has a solid waste landfill, which is in operation as of June 30, 2009. The total estimate of the closure and post closure care costs of the landfill and the portion of estimated total current cost of closure and post closure care has not been determined and recorded as required by accounting principles generally accepted in the United States as of June 30, 2009. The final effect of these matters cannot be properly determined. The Municipality has reserved \$14,507 as of June 30, 2009 to finance future closure and post-closure care costs of this solid waste landfill. This reserve has been created by legislation.

NOTE J - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2009 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	2.00%	2.00%
Total tax rate:	<u>7.03%</u>	<u>9.03%</u>
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u><u>6.83%</u></u>	<u><u>8.83%</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE J - PROPERTY TAXES - Continued

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM 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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net payable of \$84,575 resulting from the preliminary settlement 2008-2009 which is recorded as long term debt.

NOTE K - MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the Fiscal year ended June 30, 2009 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,864,763 is recorded as deferred revenues.

NOTE L - SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5% This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE L - SALES AND USE TAXES - Continued

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amend Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

Amount collected by the PRDT (the remaining .5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- .1% of the .5% 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

The Municipal Legislature an amendment to Municipal Ordinance No. 3 Series 2006-2007 to conform to dispositions of Act 80.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. A total \$157,333 sales and use tax receivable represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; \$14,017 and \$90,974 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund" respectively collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$30,000 (related to Municipal Redemption Fund) is recorded as deferred revenue since is not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE M - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	<u>Amount</u>
Amount of municipal subsidies and equalization fund send by CRIM	\$ 4,394,730
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	2,592,615
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	359,707
Reimbursement from Commonwealth Government of Law 52 and Law 82 program expenditures	128,672
Reimbursement from Commonwealth government - other programs expenditures	90,915
	<u>\$ 7,566,639</u>

NOTE N - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement system. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE N - RETIREMENT PLAN - Continued

System 2000 is a hybrid defined contribution plan, also known as a cash balance 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 State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2009	\$ 452,623	\$ 284,284
2008	<u>\$ 445,691</u>	<u>\$ 212,441</u>
2007	<u>\$ 417,441</u>	<u>\$ 171,635</u>

NOTE O - POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year ended June 30, 2009, costs related to these post employment benefits amounted to \$141,647. These benefits are recorded as expenditures in the general fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE P - COMMITMENTS

1. *Operating leases*

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately to \$15,601 and \$208,951, respectively. The lease agreement for the office space was terminated during fiscal year ended June 30, 2009.

2. *Construction*

The Municipality has commitments at June 30, 2009 of approximately \$2,690,390 for construction, improvements or renovation of certain municipal facilities.

NOTE Q - CONTINGENCIES

1. *Federal and State grants*

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. *Judgments and legal claims*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance and certain cases whereby the legal counsel has not determined an outcome. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE R – NET CHANGE IN FUND BALANCE – GENERAL FUND

The Statement of revenues, expenditures and changes in fund balance reported a net change in fund balance for the general fund in the amount of (\$4,584,863), which is composed of the following:

	<u>Amount</u>
Net change in fund balance, 01 Fund	\$ (3,459,437)
Net change in fund balance, other special funds (with self imposed restrictions) included as part of the general fund:	(1,125,426)
	<u>\$ (4,584,863)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE R – NET CHANGE IN FUND BALANCE – GENERAL FUND - Continued

The negative net change in fund balance in 01 Fund resulted in part from the effect of fund balance readjustments for a total amount of \$1,992,000. This represents readjustments of current year budget with prior year's fund balance resources, approved by the Municipal Legislature. There was also a significant decrease in fund revenues in current fiscal year. Resources to finance other special funds included as part of the general fund were provided in previous years but funds were expended in current year.

NOTE S - FUND BALANCE DEFICITS

The Community Development Block Grant Program fund and certain special funds included as other governmental funds in the fund statements disclosed fund balance deficits as follows:

	Amount
Major Funds:	
CDBG	\$ 13,353
Other Governmental Funds:	
Municipal Landfill Fund	\$ 194,017
Traffic Safety Commission Fund	\$ 23,830

These deficits results from the accrual of expenditures without accruing intergovernmental revenues. As required by current standards, the Municipality recorded intergovernmental revenues for these grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE T – NET ASSET RESTATEMENT

The following table disclosed the change of net assets balance at beginning of year as previously reported in the government wide statements. The change resulted from the correction of an overstatement of depreciation of land improvements to the Municipal landfill since previous years. The beginning balances have been restated as follows:

	Net assets
Balance at beginning of year, as previously reported:	\$ 49,486,874
Correction of error, overstatement of depreciation	340,665
Balance at beginning of year, as restated:	\$ 49,827,539

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2009**

	Budgeted amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final	(Budgetary Basis) (See Note A)	
Revenues:				
Taxes:				
Property taxes	\$ 6,755,160	\$ 6,755,160	\$ 6,984,816	\$ 229,656
Municipal license taxes	2,662,500	2,662,500	2,668,767	6,267
Intergovernmental	4,337,191	4,696,898	4,834,204	137,306
Fees, fines and charges for services	3,075,000	3,130,000	2,165,839	(964,161)
Interest	836,673	836,673	422,744	(413,929)
Other	100,000	100,000	295,773	195,773
Total revenues	<u>17,766,524</u>	<u>18,181,231</u>	<u>17,372,143</u>	<u>(809,088)</u>
Expenditures:				
Current:				
General government	5,360,278	6,873,065	6,973,779	(100,714)
Public works and sanitation	6,888,963	7,753,368	7,839,798	(86,430)
Public safety	2,540,784	2,501,484	2,435,198	66,286
Culture and recreation	1,203,001	1,206,026	1,157,671	48,355
Health	839,489	823,489	822,398	1,091
Welfare and community development	1,755,809	1,852,759	1,795,941	56,818
Education	28,200	32,040	32,040	-
Total expenditures	<u>18,616,524</u>	<u>21,042,231</u>	<u>21,056,825</u>	<u>(14,594)</u>
Deficiency of revenues over expenditures	<u>(850,000)</u>	<u>(2,861,000)</u>	<u>(3,684,682)</u>	<u>(823,682)</u>
Other financing sources (uses):				
Transfers in	2,000,000	2,049,000	1,881,681	(167,319)
Transfers (out)	(1,150,000)	(1,180,000)	(1,180,000)	-
Total other financing sources (uses):	<u>850,000</u>	<u>869,000</u>	<u>701,681</u>	<u>(167,319)</u>
Readjustment from prior year fund balance	-	1,432,000	-	(1,432,000)
Special-Emergency Readjustment from prior year fund balance	-	560,000	-	(560,000)
Deficiency of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,983,001)</u>	<u>\$ (2,983,001)</u>

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2009

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET READJUSTMENTS

The budgetary comparison schedule presents a fund balance readjustment of \$1,432,000. This represents a readjustment of current year budget with prior year's budgetary surpluses, approved by the Municipal Legislature.

Due to an emergency situation caused by a flood disaster, the Municipal Legislature approved an operational budget increase of \$560,000 from previous year excess fund balance. The purpose of this readjustment was to increase the amount assigned to certain expenditures in the general fund to finance the expenditures incurred during the emergency.

NOTE C - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
June 30, 2009**

NOTE C - BUDGET TO GAAP RECONCILIATION - Continued

Deficiency of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$(2,983,001)
Budget to GAAP differences:	
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	2,415,127
Non budgeted funds recorded as expenditures for financial reporting:	(2,974,748)
Non budgeted transfers in:	2,178,610
Non budgeted transfers out:	(2,744,415)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	894,318
Revenues recorded in budgetary basis purposes but not in financial reporting:	(130,597)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	97,894
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(1,404,689)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	131,812
Prior year encumbrances recorded as expenditures for financial reporting purposes:	<u>(65,174)</u>
Net change in fund balance (GAAP basis):	<u>\$(4,584,863)</u>