

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2009



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CONTENTS

	PAGE
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet-Governmental Funds	16
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in	
Fund Balance-Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures	
and changes in fund balance of Governmental Funds to	
the Statement of Activities	19
Notes to the Basic Financial Statements	20-45
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	46
Notes to Budgetary Comparison Schedule – General Fund	47

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of San Lorenzo, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the Municipality of San Lorenzo, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of San Lorenzo, Puerto Rico's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Lorenzo, Puerto Rico, as of June 30, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the Municipality of San Lorenzo, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 46 through 47, 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.

Román Toro & Co.
ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 18, 2009

Stamp #2474104 was affixed to
the original of this report

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the Municipality of San Lorenzo's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2009 by \$18,591,815 (net assets).
- Revenues increased by \$2,497,280 (12.7%) and expenses increased by \$1,786,025 (.8.27%) in comparison with year 2008, as restated.
- Net change in net assets amounted to (\$129,188), a reduction of \$1,786,025 with respect to prior year (2008) net change.

Highlights for Fund Financial Statements

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

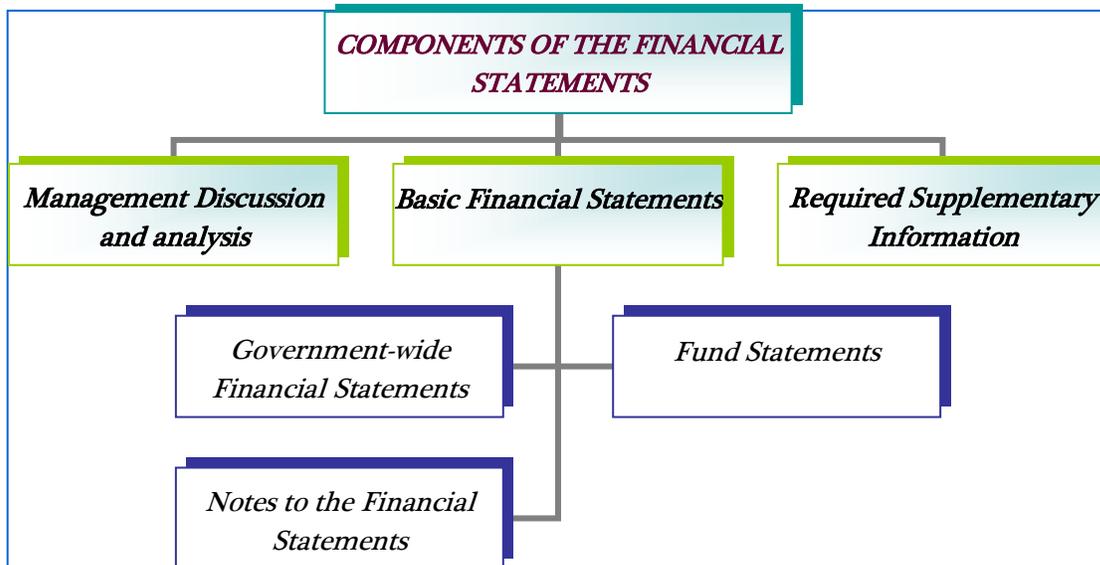
- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$12,743,085, an increase of \$5,565,254 in comparison with the prior year.
- The General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$616,089 and an unreserved (deficit) fund balance of (\$1,360,730). Unreserved (deficit) fund balances decreased by \$466,057 from prior year.

General Financial Highlights

- The investment in net capital assets as of June 30, 2009 was \$18,243,221 (net of related debt).
- Long term debt general and special obligation bonds increased to \$25,407,000, approximately 36.4% with respect to prior year balance for the issuance of general and special bonds for \$7,437,000 for the construction of the Multiuses Coliseum and other projects, and operational purposes.
- Other long term debts increases and net reductions from payments amounted to \$296,623 and \$392,866, respectively.
- On a budgetary basis, actual revenues exceeded actual expenditures and transfers by \$11,385.
- Revenues increase was mainly in volume of business taxes of \$521,203, property taxes (\$370,990), and miscellaneous (\$251,861).

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

◆ *Government-Wide Financial Statements*

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

◆ *Fund Financial Statements*

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

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

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

◆ **Notes to the financial statements**

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

◆ **Required supplementary information**

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

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

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year were maintained stable with a decreased of only 0.007% with respect to prior year as restated. The most significant changes were an increase in restricted assets of \$880,379 and a decrease of the deficit by \$271,531. Also, an increase in capital assets by \$950,076 (net of depreciation, with an increase in long-term debt by \$6,685,757, that should be use principally for the construction of various projects and to finance part of the deficit of the general and special funds.

Table 1		
Commonwealth of Puerto Rico		
Municipality of San Lorenzo, Puerto Rico		
Statement of Net Assets		
As of June 30,		
	2009	2008
Current and Non-Current Assets	\$ 18,580,689	\$ 12,491,733
Capital Assets	<u>32,510,617</u>	<u>31,560,541</u>
Total Assets	<u>51,091,306</u>	<u>44,052,274</u>
Current Liabilities	1,777,647	1,501,156
Deferred Revenues	2,610,856	2,326,470
Long-Term Liabilities	<u>28,110,988</u>	<u>21,425,231</u>
Total Liabilities	<u>32,499,491</u>	<u>25,252,857</u>
Net Assets:		
Investment in Capital Assets,		
Net of Related Debt	18,243,221	19,524,319
Restricted (As Restated)	3,766,781	2,886,402
Unrestricted (Deficit)	<u>(3,418,187)</u>	<u>(3,689,718)</u>
Total Net Assets	<u>\$ 18,591,815</u>	<u>\$ 18,721,003</u>

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$18,243,221; total capital assets (\$41,831,446) less accumulated depreciation (\$9,320,829) and less any related outstanding debt (\$14,267,396) used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

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

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

As of June 30, 2009 the Municipality presented unrestricted (deficit) net assets of (\$3,418,187). This balance was affected by long term obligations such as compensated absences \$1,432,195 and other debts for the amount of \$1,271,793 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

Changes in net assets

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

With respect to prior year, revenues increased by approximately \$2.5 million or 12.7%, principally on capital grants and contributions.

Expenses increased 3.3% or \$711,255 in comparison with 2008 year. Significant increases were registered on general administration and urban development incurred for the benefit of the community and employees.

Commonwealth of Puerto Rico		
Municipality of San Lorenzo, Puerto Rico		
Changes in Net Assets		
For Fiscal Years Ending June 30,		
	2009	2008
Revenues:		
Program Revenues:		
Changes for Services	\$ 38,400	\$ 38,400
Operating Grants and Contributions	3,128,689	2,763,976
Capital Grants and Contributions	3,900,259	1,546,696
General Revenues:		
Property Taxes	4,813,535	4,144,930
Volume of Business Taxes	3,027,403	2,329,455
Licenses and Permits	587,611	1,196,640
Sales and Use Taxes	917,929	1,114,630
Intergovernmental	5,321,539	6,098,383
Other General Revenues	446,361	451,336
Total Revenues	22,181,726	19,684,446
Expenses:		
General Administration	10,657,956	8,186,057
Public Safety	1,051,475	1,443,744
Public Works	1,908,518	5,110,067
Culture and Recreation	812,120	1,184,415
Health and Sanitation	629,369	628,992
Solid Wasted Disposal	2,235,082	2,104,349
Human Services and Welfare	1,245,164	1,080,960
Urban Development	2,522,298	882,147
Loss on Disposition of Assets	91,654	15,308
Interest Costs	1,157,278	963,620
Total Expenses	22,310,914	21,599,659
Changes in Net Assets	(129,188)	(1,915,213)
Net Assets-Beginning, as Restated	18,721,003	20,636,216
Net Assets-Ending	\$ 18,591,815	\$ 18,721,003

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

FIGURE 1

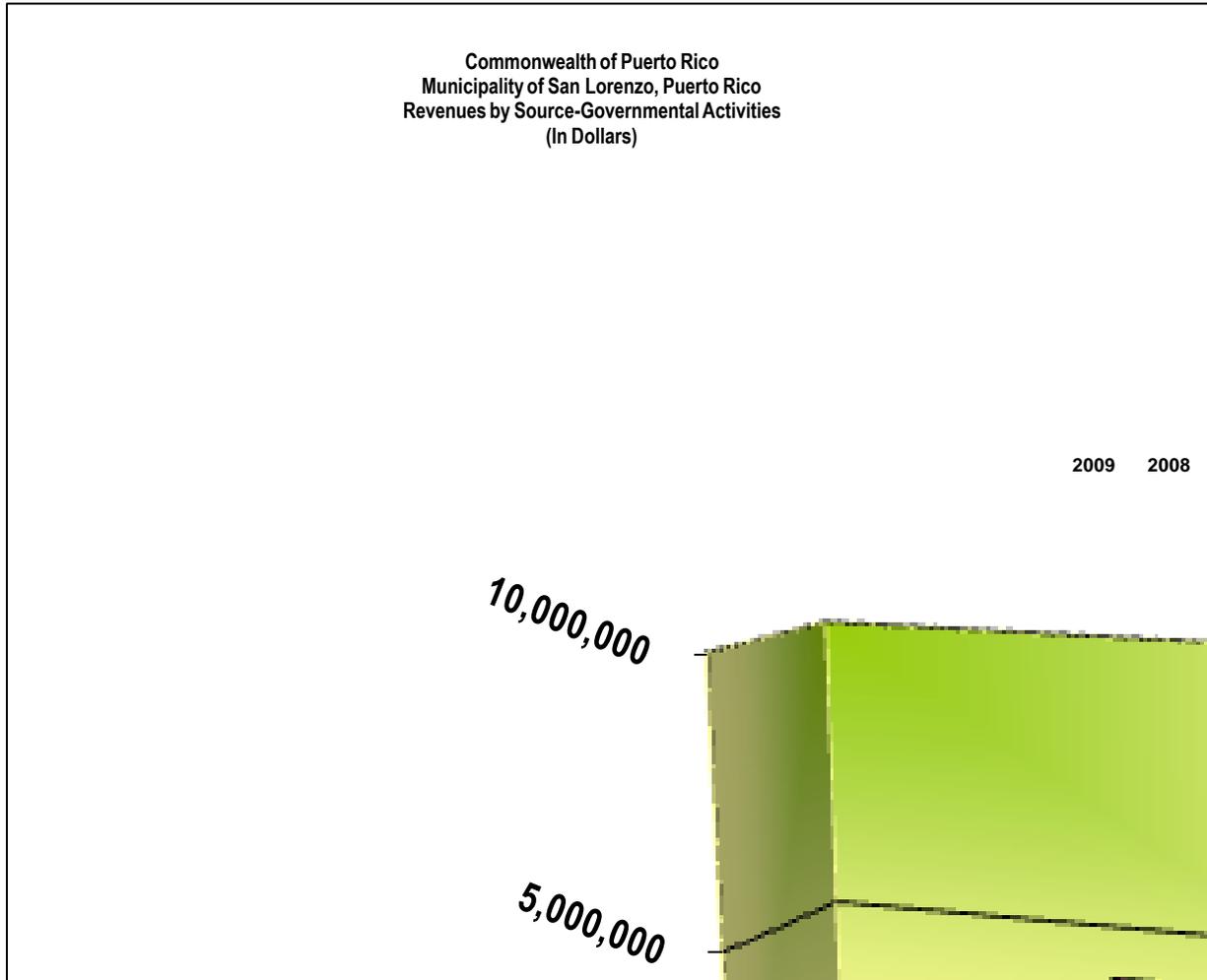
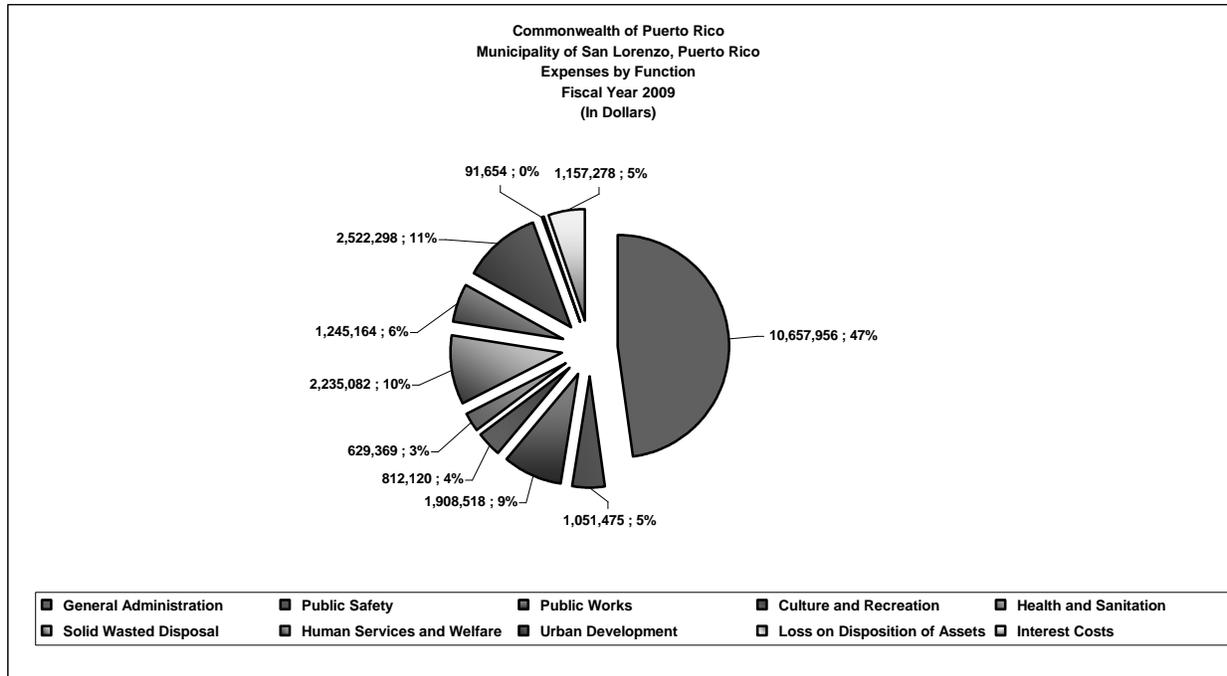


Figure 2 presents expenses by function of the governmental activities during the fiscal year 2008-2009:

FIGURE 2



Approximately 24% of the Municipality's revenues came from intergovernmental, 21.7% from property taxes, 31.7% from grants and contributions, and 22.6% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 47.8%, public works with 8.5%, solid waste disposal with 10% and urban development with 11.3%. Program revenues of the Municipality covered 31.7% of total expenses.

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

Commonwealth of Puerto Rico				
Municipality of San Lorenzo, Puerto Rico				
Net Cost of Municipality's Governmental Activities				
For Fiscal Years Ended June 30,				
	Total Cost of Services		Net Cost of Services	
Functions/Programs	2009	2008	2009	2008
General Administration	\$ 10,657,956	\$ 8,186,057	\$ 8,492,728	\$ 6,521,830
Public Safety	1,051,475	1,443,744	911,730	954,296
Public Works	1,908,518	5,110,067	1,193,236	5,064,660
Culture and Recreation	812,120	1,184,415	812,120	1,184,415
Solid Waste Disposal	2,235,082	2,104,349	2,235,082	2,104,349
Human Services and Welfare	1,245,164	1,080,960	130,104	16,738
Urban Development	2,522,298	882,147	(409,735)	(275,098)
Others	1,878,301	1,607,920	1,878,301	1,600,983
Total	\$ 22,310,914	\$ 21,599,659	\$ 15,243,566	\$ 17,172,173

Some of the cost of governmental activities in 2009 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$7,028,948). The \$15,243,566 net cost of services was substantially covered by other general revenues including property, volume of business, sales and usage, and construction taxes, and intergovernmental revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

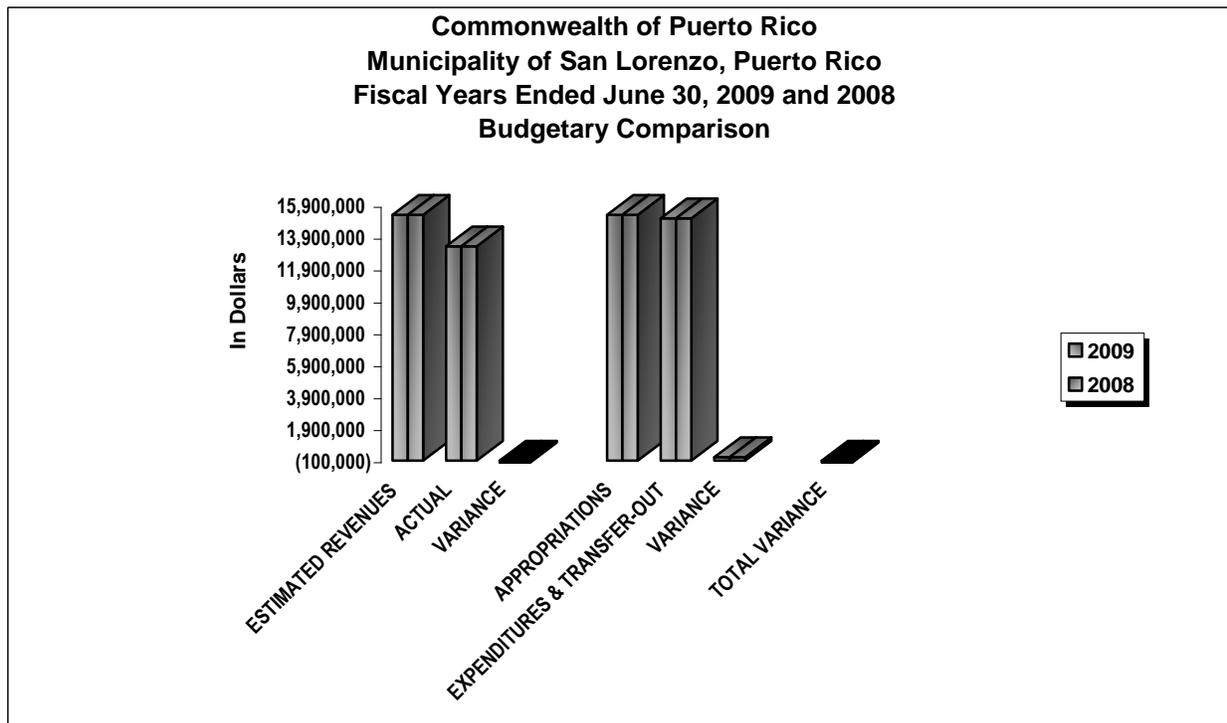
The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2009, the governmental funds reported combined ending fund balances of \$12,743,085, a net increase of \$5,565,254 in comparison with the prior year. This increase was primarily by a net change in the Multiuses Coliseum fund of \$1,790,028, and a proceeded of bonds of \$7,437,000, to be use for the Multiuses Coliseum construction (\$2,795,000), for the construction of recreational facilities and other improvements (\$3,156,000), and to operational purpose (\$1,486,000). Of total combined fund balances, (\$1,360,730) constitutes unreserved (deficit) fund balance of general fund which was financed by the used of state assignments fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved (deficit) fund balance of the general fund represents approximately 195.5% of total ending general fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2008-2009 presented a decrease of 8.2% with respect to prior year budget. During the fiscal year budget revenues were increased by \$115,075 due to a revision of original estimate of property taxes and miscellaneous revenues. The Municipality does not include an amendment to the budget the positive and negative changes on others revenues, principally in volume of business taxes (\$521,203) sales and use taxes [(\$587,191)] and licenses and permits (\$959,823). Budget expenditures were amended during the year in accordance with functions estimates (see **Figure 3** below).

FIGURE 3



The positive variance of \$11,385 between revised budget and actual results was due mainly to an increase in revenues as explain in the preceding paragraph, during the year. The Municipality reported less expenditure than appropriations in those functions for payments to purchase of supplies, professional and nonprofessional services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$32,510,617 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, infrastructure, construction in progress and equipment. This amount represents a net increase of \$950,076 or 3% from the prior year.

The Municipality invested a total of \$1,564,634 of capital assets during the fiscal year 2008-2009 as follows:

- Construction in Progress – \$909,675
- Acquisition of Land – \$603,729
- Acquisition of Machinery and Equipment – \$278,571
- Acquisition of Motor Vehicles – \$566,859

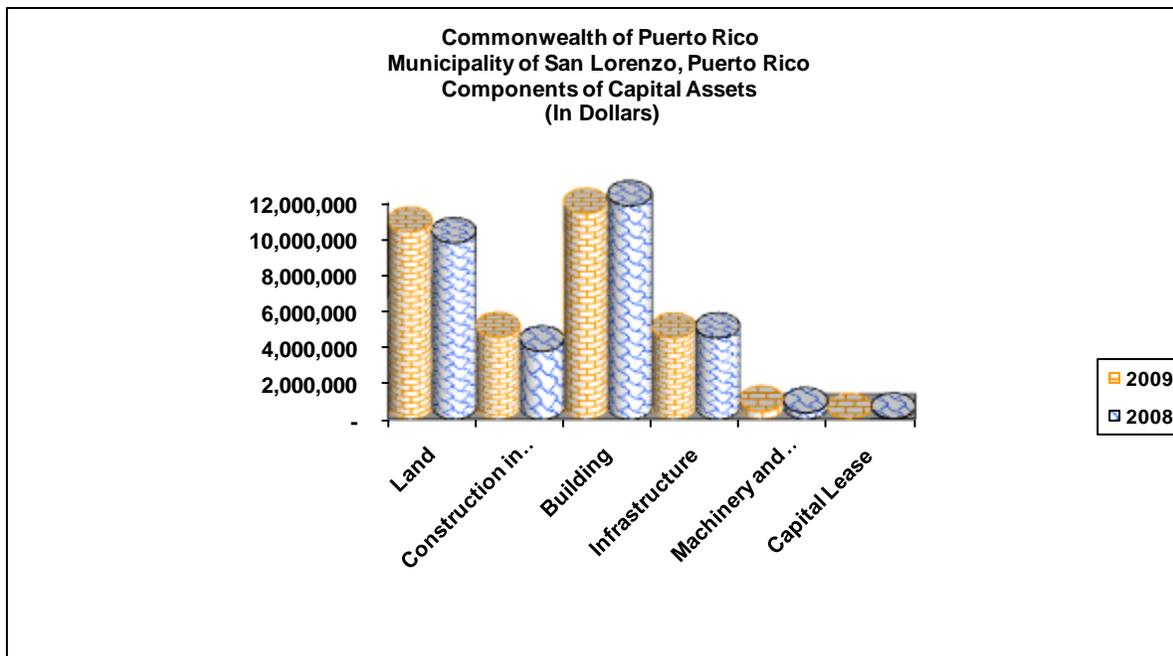
Also, infrastructure (\$145,000) were finished and put in operation during the year, and various assets were eliminated (\$1,065,721) with a net loss on disposal of \$91,654. Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2009.

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

	Governmental Activities	
	2009	2008
Non-depreciable assets:		
Land	\$ 10,370,821	\$ 9,770,216
Construction in Progress	4,526,854	3,762,179
Depreciable assets:		
Buildings	11,399,181	11,816,533
Infrastructure	4,495,657	4,499,494
Machinery and Equipment	447,131	350,637
Capital Lease	27,752	41,647
Motor Vehicles	1,243,221	1,319,835
Total	\$ 32,510,617	\$ 31,560,541

Figures 4 below present the components of capital assets during the fiscal years 2009 and 2008:

FIGURE 4



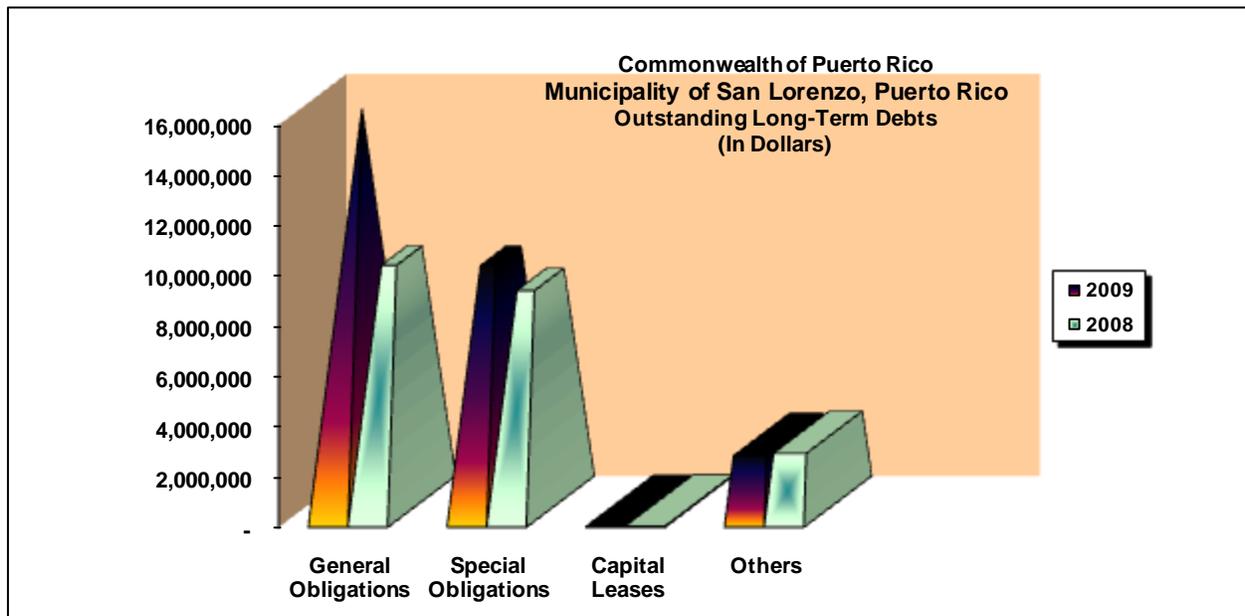
Long term debt

At year-end, the Municipality had \$25,407,000 in general and special obligations, an increase of 36.4% with respect to prior year due to the issuance of \$7.4 million of general and special obligation. The following is a summary of the Municipality's outstanding debt as of June 30, 2009 and 2008:

Table 5		
Commonwealth of Puerto Rico		
Municipality of San Lorenzo, Puerto Rico		
Outstanding Long-Term Debt		
As of June 30,		
	Governmental Activities	
	2009	2008
General and Special Obligations	\$ 25,407,000	\$ 18,625,000
Capital Lease	28,073	41,838
Property Taxes-Treasury Dept	65,758	98,638
Law No. 42-MRCC	601,709	612,870
Law No. 146-MRCC	285,606	298,024
LIMS - MRCC	121,676	165,568
Christmas Bonus	168,971	196,210
Compensated Absences	1,432,195	1,387,083
Total	\$ 28,110,988	\$ 21,425,231

Figure 5 present the components of long-term debts during the fiscal year 2009 and 2008:

FIGURE 5



More detailed information about the Municipality's long term liabilities is presented in Note 9 and 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2008-2009 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 18%, which compares with the Commonwealth rate of 15.2%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2010 are \$14.1 million, approximately \$200,000 less than the fiscal year 2009. The Municipality expects a reduction of revenues due to the economic rescission. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects were develop during the year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and Investments	\$ 7,508,417
Cash with Fiscal Agent	9,784,118
Receivables (net):	
Property Taxes	211,653
Sales and Use Taxes	76,494
Due from Governmental Units	403,959
Federal Grants	487,689
Others	<u>225</u>
Total Currents Assets	<u>18,472,555</u>
Deferred Charges	<u>108,134</u>
Capital Assets:	
Land, Improvement and Construction in Progress	14,897,675
Other Capital Assets [Net of Depreciation]	<u>17,612,942</u>
Total Capital Assets	<u>32,510,617</u>
TOTAL ASSETS	<u>51,091,306</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	1,387,471
Accrued Interest	318,988
Due to Governmental Units	71,188
Deferred Revenues	2,610,856
Long-Term Liabilities:	
Due Within One Year	2,322,319
Due in More than One Year	<u>25,788,669</u>
TOTAL LIABILITIES	<u>32,499,491</u>
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt	18,243,221
Restricted for:	
Capital Projects	947,787
Debt Service	2,548,088
Community Development Projects	270,906
Unrestricted (Deficit)	<u>(3,418,187)</u>
TOTAL NET ASSETS	<u>\$ 18,591,815</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues (See Next Page)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,672,552	\$ -	\$ -	\$ -	\$ (1,672,552)
General Government	8,985,404	38,400	1,914,198	212,630	(6,820,176)
Public Safety	1,051,475	-	-	139,745	(911,730)
Public Works	1,908,518	-	-	715,282	(1,193,236)
Culture and Recreation	812,120	-	-	-	(812,120)
Health and Sanitation	629,369	-	-	-	(629,369)
Solid Waste Disposal	2,235,082	-	-	-	(2,235,082)
Human Services and Welfare	1,245,164	-	1,115,060	-	(130,104)
Urban Development	2,522,298	-	99,431	2,832,602	409,735
Loss on Disposition of Assets	91,654	-	-	-	(91,654)
Interest on Long-Term Debt	1,157,278	-	-	-	(1,157,278)
Total Governmental Activities	22,310,914	38,400	3,128,689	3,900,259	(15,243,566)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					3,442,204
Property Taxes, levied for Debt Service					1,371,331
Volume of Business Taxes					3,027,403
Sales and Use Taxes					917,929
Licenses and Permits					587,611
Intergovernmental					5,321,539
Miscellaneous					446,361
Total General Revenues					15,114,378
CHANGES IN NET ASSETS					(129,188)
Net Assets – Beginning of Year, As Restated					18,721,003
NET ASSETS – ENDING OF YEAR					\$ 18,591,815

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUNDS	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash and Investment	\$ 982,231	\$ 3,674,622	\$ 2,002,602	\$ -	\$ 848,962	\$ 7,508,417
Cash with Fiscal Agent	1,636	-	2,566,176	2,611,744	4,604,562	9,784,118
Receivables:						
Property Taxes	-	-	-	211,653	-	211,653
Sales and Use Tax	76,494	-	-	-	-	76,494
Federal Grants	-	-	-	-	487,689	487,689
Due from Other Funds	2,319,148	-	-	-	275,513	2,594,661
Due from Governmental Units	90,061	-	-	-	313,898	403,959
Other Receivables	-	-	-	-	225	225
Total Assets	\$ 3,469,570	\$ 3,674,622	\$ 4,568,778	\$ 2,823,397	\$ 6,530,849	\$ 21,067,216
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Account Payable	\$ 1,117,925	\$ 13,830	\$ -	\$ -	\$ 255,716	\$ 1,387,471
Bonds Payable	-	-	-	980,000	-	980,000
Account Interest	-	-	-	318,988	-	318,988
Due to Governmental Units	71,188	-	-	-	-	71,188
Due to Other Funds	275,513	-	-	-	2,319,148	2,594,661
Deferred Revenues:						
Volume of Business Tax	2,610,856	-	-	-	-	2,610,856
Commonwealth of Puerto Rico	90,061	-	-	-	-	90,061
Federal Grants	-	-	-	-	270,906	270,906
Total Liabilities	4,165,543	13,830	-	1,298,988	2,845,770	8,324,131
Fund Balances:						
Reserve For:						
Encumbrances	664,757	-	-	-	-	664,757
Debt Service	-	-	-	1,524,409	-	1,524,409
Capital Projects	-	3,660,792	4,568,778	-	3,666,770	11,896,340
Other Purposes	-	-	-	-	18,309	18,309
Unreserved (Deficit)	(1,360,730)	-	-	-	-	(1,360,730)
Total Fund Balances	(695,973)	3,660,792	4,568,778	1,524,409	3,685,079	12,743,085
Total Liabilities and Fund Balances	\$ 3,469,570	\$ 3,674,622	\$ 4,568,778	\$ 2,823,397	\$ 6,530,849	\$ 21,067,216

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

JUNE 30, 2009

Total Fund Balances – Government Funds (Page 16) **\$ 12,743,085**

Amount reported for Governmental Activities in the Statement of Net Assets (Page 14)
are different because:

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

Non Depreciable Capital Assets	\$ 14,897,675	
Depreciable Capital Assets	21,238,398	
Infrastructure Assets	5,695,373	
Accumulated Depreciation	<u>(9,320,829)</u>	
Total Capital Assets		32,510,617

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

Deferred Charges		108,134
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Some of the **Municipality's** revenues will be collected after year-end but are not available
soon enough to pay for the current period's expenditures and therefore are deferred in the funds:

CDBG	270,906	
Intergovernmental	5,576	
Christmas Bonus	84,485	<u>360,967</u>

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

General Special Obligation Bonds	(24,427,000)	
Capital Lease	(28,073)	
Christmas Bonus	(168,971)	
LIMS - MRCC	(121,676)	
Compensated Absences	(1,432,195)	
Law Number 146 - MRCC	(285,606)	
Law Number 42 - MRCC	(601,709)	
PR Treasury Department	<u>(65,758)</u>	
Total Long-Term Liabilities		<u>(27,130,988)</u>

Total Net Assets of Governmental Activities (Page 14) **\$ 18,591,815**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES CENTER FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	\$ 3,442,204	\$ -	\$ -	\$ 1,371,331	\$ -	\$ 4,813,535
Volume of Business Taxes	3,027,403	-	-	-	-	3,027,403
Sales and Use Taxes	917,929	-	-	380,823	252,260	1,551,012
Federal Assistances	-	62,595	-	-	2,467,022	2,529,617
Intergovernmental	5,824,236	-	2,002,602	-	1,746,005	9,572,843
Licenses and Permits	587,611	-	-	-	-	587,611
Miscellaneous	446,361	-	-	-	38,400	484,761
Total Revenues	14,245,744	62,595	2,002,602	1,752,154	4,503,687	22,566,782
EXPENDITURES:						
Current						
Mayor and Municipal Legislature	1,597,597	-	-	-	-	1,597,597
General Government	6,129,237	-	-	-	2,652,626	8,781,863
Public Safety	843,759	-	-	-	231,432	1,075,191
Public Works	1,528,928	-	-	-	595,909	2,124,837
Culture and Recreation	733,194	-	-	-	-	733,194
Health and Sanitation	629,369	-	-	-	-	629,369
Solid Waste Disposal	2,235,082	-	-	-	-	2,235,082
Human Services and Welfare	57,040	-	-	-	1,100,706	1,157,746
Urban Development	-	-	-	-	1,719,242	1,719,242
Capital Outlay	16,780	570,607	212,574	-	1,219,373	2,019,334
Debt Service:						
Bond Issue Cost	-	-	-	43,679	-	43,679
Principal	-	-	-	1,164,116	-	1,164,116
Interest and Other Charges	-	-	-	1,157,278	-	1,157,278
Total Expenditures	13,770,986	570,607	212,574	2,365,073	7,519,288	24,438,528
Excess of Revenues Over (Under) Expenditures	474,758	(508,012)	1,790,028	(612,919)	(3,015,601)	(1,871,746)
OTHER FINANCING SOURCES (USES):						
Proceed of Note	-	-	2,795,000	-	4,642,000	7,437,000
Transfer – In	1,231,316	160,692	-	706,098	588,258	2,686,364
Transfer – Out	(1,089,985)	(321,384)	(16,250)	(600,000)	(658,745)	(2,686,364)
Total Other Financing Sources and Uses	141,331	(160,692)	2,778,750	106,098	4,571,513	7,437,000
Net Change in Fund Balance	616,089	(668,704)	4,568,778	(506,821)	1,555,912	5,565,254
Fund Balance – Beginning, As Restated	(1,312,062)	4,329,496	-	2,031,230	2,129,167	7,177,831
FUND BALANCE – ENDING	\$ (695,973)	\$ 3,660,792	\$ 4,568,778	\$ 1,524,409	\$ 3,685,079	\$ 12,743,085

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net Change in Fund Balances – Government Funds (Page 18) **\$ 5,565,254**

Amount reported for Governmental Activities in the Statement of Activities (Page 15)
are different because:

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

Capital Assets	\$ 2,025,834	
Depreciation Expense	<u>(984,104)</u>	
Excess of Capital Assets over Depreciation Expense		1,041,730

Governmental funds only report the proceeds received in the disposal of assets. In the
Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in
net assets differs from the change in fund balance by the cost of the disposed asset (91,654)

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

Bond Issuance Costs	43,679	
Amortization of Deferred Charges	<u>(7,384)</u>	36,295

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

Property Taxes	(489,077)	
Christmas Bonus	(13,620)	
Community Development Block Grant	<u>117,641</u>	
Total of Revenues		(385,056)

Bonds proceeds provide current financial resources to governmental funds, but issuing debt
increase Long-Term Liabilities in the Statement of Net Assets. In the current period,
proceeds received was (7,437,000)

Repayment of long-term principal is expenditure in the governmental funds, but issuing debt
reduced Long-Term Liabilities in the Statement of Net Assets. In the current period
repayments were 1,159,116

Some expenses reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental funds.
These activities consist of:

Decrease in Christmas Bonus	27,239	
Increase in Compensated Absences	<u>(45,112)</u>	
Total Additional Expenses		<u>(17,873)</u>

Change in Net Assets of Governmental Activities (Page 15) **\$ (129,188)**

See accompanying Notes to Basic Financial Statements.

1. FINANCIAL REPORTING ENTITY

A. Organization

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

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

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

GASBS No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (1) 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; (2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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

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

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

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

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

Management's Discussion and Analysis

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

Government-wide Financial Statements (GWFS)

The GWFS (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the Municipality.

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

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

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

For most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

Governmental Funds Financial Statements (GFFS)

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

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

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

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

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. At June 30, 2009, all revenues sources met this availability criterion.

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

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

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

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

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

- a. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2009, which are recorded as governmental fund liabilities of June 30, 2009 which is the date when resources were available in the debt service fund.
- b. Obligations from compensated absences and the estimated liability for municipal solid waste landfill post-closure care costs are recorded only when they mature (when payment is due).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

- c. Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying *Statement of Net Assets*. Such liabilities are recorded in the governmental funds when they mature.
- d. Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

The Municipality reports the following major governmental funds:

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

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

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

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

The non-major funds are combined in a single column in the GGFS.

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

As a general rule the effect of interfund activity has been eliminated from the GWFS.

B. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

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

Original Budget

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

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

Final Budget

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

C. Assets, Liabilities, and Net Assets

1) Cash and Investment, and Cash with Fiscal Agent

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico*, issued by the GDB as promulgated by Law No. 113 of August 3, 1995. The Director of Finance of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments.

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

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Government, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) Receivables and Payables

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

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

Receivables consist of all revenues earned but not collected at June 30, 2009. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority (PREPA) as payment in lieu of taxes, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

3) Inventories

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

4) Deferred Charges

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

5) Capital Assets

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

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount.

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

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset acquired. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

The Municipality classifies as capital leases all lease agreements that involve the transfer of substantially all benefits and risks inherent in the ownership of the leased property and meet one or more of the following four criteria: (1) by the end of the lease term, the ownership of the leased property is transferred to the Municipality, (2) the lease agreement contains a bargain purchase option, (3) the lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property, and (4) at the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

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

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

6) *Deferred Revenues*

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

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

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

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

8) *Compensated Absences*

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay. All vacation pay is accrued when incurred in the GWFS and Proprietary Fund Financial Statements. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

9) Claims and Judgments

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

10) Accounting for Pension Costs

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

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

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

11) Net Assets/Fund Balance

Net Assets

The GWFS utilize a net assets presentation, which are categorized as follow:

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

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation.....	\$32,510,617
Outstanding Balance on Related Debt.....	(23,926,905)
Unspent Capital Debt Proceeds.....	<u>9,659,509</u>
Total Invested in Capital Assets, Net of Related Debt.....	<u>\$18,243,221</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

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

Fund Balance

The GFFS present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

- *Reserve for Encumbrances* – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Reserve for Debt Service* – The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent years.
- *Reserve for Capital Projects* – Certain assets, primarily cash and investments, and cash with fiscal agent to be invested in capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- *Reserve for Other Purposes* – Certain assets, primarily cash of grants and contributions that are authorized to be carried over and expended in the ensuing year.

D. Interfund Transactions

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

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

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

E. Risk Financing

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2009 amounted to approximately \$197,943. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$269,459 for workers compensation insurance covering all municipal employees for the same period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

F. Use of Estimates

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

G. Reclassifications

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

H. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2009:

GASB Statement No. 51, *Intangible Assets*. This Statement requires that an intangible asset be recognized in the *Statement of Net Assets* only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively.

For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing GASBS No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

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

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

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

3. CASH AND INVESTMENTS

Cash in Banks

The Municipality's cash and investments at June 30, 2009 are composed of: (1) demand deposits in commercial banks, and (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent).

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

The Municipality follows the practice of pooling cash. At June 30, 2009, the cash are maintained in commercial banks with a balance of \$7,508,417 of which \$982,231 in the General Fund, \$3,674,622 in the Activities Center Fund, \$2,002,602 in the Multiuses Coliseum Fund, and \$848,962 in Other Governmental Funds. The balance in cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

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

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$2,611,744 that are restricted for the payment of the Municipality's debt service, as required by law, \$2,566,176 are unspent proceeds of bonds that are restricted for the construction of the Multiuses Coliseum and \$1,636 is a balance of a previous bond issue available for the General Fund. Cash with Fiscal Agent of \$4,604,562 in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets and operational purposes. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

The Municipality follows the provisions of GASBS No. 40, *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2009:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009, the Municipality has invested only in cash in banks of \$7.5 million which are insured by the FDIC, generally up to a maximum of \$100,000 (actually \$250,000 up to December 2009). As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt or equity securities were made during the Fiscal Year ended June 30, 2009. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2009, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

3. CASH AND INVESTMENTS (continuation)

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2009, the Municipality has balances deposited in commercial banks amounting to \$7.5 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$9.8 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2009, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

4. DUE FROM GOVERNMENTAL UNITS

As of June 30, 2009, the amount of \$403,959 corresponds to the Municipal Revenue Collection Center (\$5,576); and Puerto Rico Treasury Department (\$398,383).

5. DEFERRED REVENUES

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

	UNAVAILABLE	UNEARNED
Volume of Business Taxes	\$ -	\$ 2,610,856
Governmental Units	90,061	-
SBGP	<u>270,906</u>	<u>-</u>
Total Deferred/Unearned Revenue	<u>\$ 360,967</u>	<u>\$ 2,610,856</u>

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Due to/from Other Funds at June 30, 2009 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Major Fund	\$ 2,319,148
Other Major Fund	General Fund	<u>275,513</u>
TOTAL		<u>\$ 2,594,661</u>

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (continuation)

B. INTERFUND TRANSFERS

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

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$ 341,035	Bond Principal and Interest Payments
General Fund	Activities Center	160,692	Budget Specific Project Funding
General Fund	Other Major Fund	588,258	Budget Specific Project Funding
Debt Service Fund	General Fund	600,000	Budget Specific Project Funding
Activities Center	Debt Service Fund	321,384	Bond Principal and Interest Payments
Coliseum Fund	Debt Service Fund	16,250	Bond Issue Costs
Other Major Fund	Debt Service Fund	27,429	Bond Issue Costs
Other Major Fund	General Fund	631,316	Budget Specific Project Funding
	Total	<u>\$ 2,686,364</u>	

7. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2009, balance due to other governmental units of the General Fund for services rendered to the Municipality (\$71,188) consists of AEELA (\$7,774); Retirement System Administration (\$63,174); and General Services Administration (\$240).

8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2009 was as follows:

DESCRIPTION	BALANCE JULY 1, 2008	RECLASSIFICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2009
Non-Depreciable Capital Assets:					
Land	\$ 9,770,216	\$ -	\$ 603,729	\$ (3,124)	\$ 10,370,821
Construction in Progress	3,762,179	(145,000)	909,675	-	4,526,854
Total Non-Depreciable Capital Assets	<u>13,532,395</u>	<u>(145,000)</u>	<u>1,513,404</u>	<u>(3,124)</u>	<u>14,897,675</u>
Depreciable Capital Assets:					
Buildings	16,292,371	-	-	(21,644)	16,270,727
Infrastructure	5,550,373	145,000	-	-	5,695,373
Machinery and Equipment	2,007,788	-	278,571	(323,482)	1,962,877
Capital Lease	69,283	-	-	-	69,283
Motor Vehicles	3,422,247	-	233,859	(720,595)	2,935,511
Total Depreciable Capital Assets	<u>27,342,062</u>	<u>145,000</u>	<u>512,430</u>	<u>(1,065,721)</u>	<u>26,933,771</u>
Less Accumulated Depreciation:					
Buildings	(4,475,838)	-	(404,807)	9,099	(4,871,546)
Infrastructure	(1,050,879)	-	(148,837)	-	(1,199,716)
Machinery and Equipment	(1,657,151)	-	(180,195)	321,600	(1,515,746)
Capital Lease	(27,636)	-	(13,895)	-	(41,531)
Motor Vehicles	(2,102,412)	-	(236,370)	646,492	(1,692,290)
Total Accumulated Depreciation	<u>(9,313,916)</u>	<u>-</u>	<u>(984,104)</u>	<u>977,191</u>	<u>(9,320,829)</u>
Total Depreciable Capital Assets (Net)	<u>18,028,146</u>	<u>145,000</u>	<u>(471,674)</u>	<u>(88,530)</u>	<u>17,612,942</u>
CAPITAL ASSETS, NET	<u>\$ 31,560,541</u>	<u>\$ -</u>	<u>\$ 1,041,730</u>	<u>\$ (91,654)</u>	<u>\$ 32,510,617</u>

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

	AMOUNT
Mayor and Municipal Legislature	\$ 295,231
General Government	59,046
Public Safety	118,093
Public Works	246,026
Urban Development	59,046
Culture and Recreation	78,728
Human Services and Welfare	127,934
Total Depreciation Expenses	<u>\$ 984,104</u>

9. GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Obligations Bonds

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

During August 2008, the Municipality issued general obligation bonds of 2008 in the amount of \$2,795,000 for the construction of the Multiuses Coliseum. The principal and interest at 5.40% for the first installment, 2.43% for the second installment, and 7.50% for the remaining installments are payable semi-annually ranging from \$35,000 to \$235,000 on the 1st days of January and July of each year through July 2033.

During September 2008, the Municipality issued special obligation bonds of 2008 in the amount of \$1,006,000 for the construction purpose. The principal and interest at 5.40% for the first installment, and 7.50% for the remaining installments are payable semi-annually ranging from \$175,000 to \$231,000 on the 1st days of January and July of each year through July 2013.

During October 2008, the Municipality issued general obligation bonds of 2008 in the amount of \$2,150,000 for the construction recreational facilities. The principal and interest at 5.40% for the first installment, 2.43% for the second installment, and 7.50% for the remaining installments are payable semi-annually ranging from \$30,000 to \$185,000 on the 1st days of January and July of each year through July 2033.

During March 2009, the Municipality issued general obligation bonds of 2009 in the amount of \$1,486,000 for the operational purpose. The principal and interest at 4.75% for the first installment, and 7.50% for the remaining installments are payable semi-annually ranging from \$105,000 to \$206,000 on the 1st days of January and July of each year through July 2018.

General and special obligations bonds as of June 30, 2009, are comprised of the following individual issues:

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
General Obligation Bonds - Property Taxes			
\$1,525,000, Series 1997 - General Construction	2021	8.00%	\$ 1,125,000
\$575,000, Series 1996 - General Construction	2015	8.00%	315,000
\$4,025,000, Series 2003 - General Construction	2027	8.00%	3,535,000
\$2,015,000, Series 2005 - General Construction	2030	3.27% to 5.00%	1,615,000
\$1,500,000, Series 2004 - General Construction	2030	3.27% to 5.00%	1,420,000
\$555,000, Series 2004 - General Construction	2019	3.27% to 5.00%	260,000
\$1,115,000, Series 2007-08 - General Construction	2012	3.93% to 7.50%	925,000
\$2,795,000, Series 2008-09 - General Construction	2033	5.40% to 7.50%	2,795,000
\$2,150,000, Series 2008-09 - General Construction	2033	5.40% to 7.50%	2,150,000
\$1,486,000, Series 2008-09 - Operation	2012	4.75% to 7.50%	1,486,000
Total General Obligations Bonds			<u>15,626,000</u>
Special Obligation Bonds - General Revenues			
\$1,915,000, Series 2004 - Operation	2024	6.00%	<u>1,600,000</u>
Special Obligation Bonds - Section 108 (HUD)			
\$6,000,000, Series 2006 - General Construction	2026	4.96% to 5.77%	<u>6,000,000</u>
Special Obligation Bonds - Sales and Usage Taxes			
\$1,175,000, Series 2008 - General Construction	2032	5.40% to 7.50%	1,175,000
\$1,006,000, Series 2009 - General Construction	2013	5.40% to 7.50%	<u>1,006,000</u>
Subtotal			<u>2,181,000</u>
Total Special Obligations Bonds			<u>9,781,000</u>
Total General and Special Obligation Bonds			<u>\$ 25,407,000</u>

9. GENERAL LONG-TERM DEBTS (continuation)

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2009, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Obligation Under Capital Leases

The Municipality is obligated under certain capital leases accounted for in the Statement of Net Assets. The historical cost, accumulated depreciation, future minimum lease payments at June 30, 2009, are as follows:

Cost	\$ 69,283
Accumulated Depreciation	\$ 41,531
Monthly Lease Payments	\$ 1,307
Residual Lease Payments	\$ -
YEAR ENDING	TOTAL
JUNE 30,	PAYMENT
2010	\$ 14,234
2011	14,234
2012	1,307
Total Minimum Lease Payment	29,775
Less: Deferred Interest	1,702
Present Value Minimum Lease Payments	\$ 28,073

C. Other Long-Term Debts

Property Taxes – Treasury Department

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

Borrowing from MRCC

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

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

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

9. GENERAL LONG-TERM DEBTS (continuation)

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2009 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2009.

Claims and Judgments

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

Solid Waste Disposal

This amount represents the estimated liability of postclosure care costs.

Compensated Absences

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

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2008	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2009	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Property Taxes -Treasury Dept.	\$ 98,638	\$ -	\$ (32,880)	\$ 65,758	\$ 32,880	\$ 32,878
Law Number 42 - MRCC	612,870	-	(11,161)	601,709	11,862	589,847
Law Number 146 - MRCC	298,024	-	(12,418)	285,606	12,418	273,188
LIMS - MRCC	165,568	-	(43,892)	121,676	46,542	75,134
Christmas Bonus	196,210	168,971	(196,210)	168,971	168,971	-
Capital Leases	41,838	-	(13,765)	28,073	13,016	15,057
Compensated Absences	1,387,083	127,652	(82,540)	1,432,195	981,630	450,565
TOTAL	\$ 2,800,231	\$ 296,623	\$ (392,866)	\$ 2,703,988	\$ 1,267,319	\$ 1,436,669

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2009:

DESCRIPTION	BALANCE JULY 1, 2008	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2009	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$ 9,785,000	\$ 6,431,000	\$ (590,000)	\$ 15,626,000	\$ 795,000	\$ 14,831,000
Special	8,840,000	1,006,000	(65,000)	9,781,000	260,000	9,521,000
Others	2,800,231	296,623	(392,866)	2,703,988	1,267,319	1,436,669
TOTAL	\$ 21,425,231	\$ 7,733,623	\$ (1,047,866)	\$ 28,110,988	\$ 2,322,319	\$ 25,788,669

9. GENERAL LONG-TERM DEBTS (continuation)

E. Debt Compliance

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

The annual requirements to amortize the general long-term debts outstanding as of June 30, 2009 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds		Other Long-Term Obligations		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2010	\$ 795,000	\$ 749,710	\$ 260,000	\$ 512,682	\$ 1,267,319	\$ 62,590	\$ 2,322,319	\$ 1,324,982
2011	850,000	894,982	633,000	565,214	571,575	57,523	2,054,575	1,517,719
2012	910,000	840,931	653,000	525,609	52,902	52,505	1,615,902	1,419,045
2013	875,000	784,779	673,000	484,433	26,659	50,118	1,574,659	1,319,330
2014	660,000	737,633	699,000	441,480	27,554	48,451	1,386,554	1,227,564
2015-2019	3,866,000	3,034,697	2,445,000	1,748,743	153,289	215,151	6,464,289	4,998,591
2020-2024	2,815,000	2,007,008	2,655,000	981,637	185,775	163,356	5,655,775	3,152,001
2025-2029	2,825,000	1,158,869	1,388,000	290,917	229,832	99,989	4,442,832	1,549,775
2030-2034	2,030,000	370,108	375,000	56,625	189,083	23,996	2,594,083	450,729
TOTAL	\$ 15,626,000	\$ 10,578,717	\$ 9,781,000	\$ 5,607,340	\$ 2,703,988	\$ 773,679	\$ 28,110,988	\$ 16,959,736

10. DEBT RETIREMENT

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

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

11. PROPERTY TAXES

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

The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

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

11. PROPERTY TAXES (continuation)

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2009 resulted in a receivable of \$211,653.

The tax rate for fiscal year 2009 is 10.43% for real property and 8.43% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.40% and 7.40%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 3.20% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. For such exempted amounts, the Puerto Rico Treasury Department 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. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipality was frozen as of January 1, 1992.

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

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

12. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2009, the tax rates were as follows:

- a. Financial institutions and savings and loan associations – 3%
- b. Other organizations – 1%

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

13. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amends 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

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 \$76,494 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. CONSTRUCTION EXCISE TAXES

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

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

A construction project, which doesn't qualify for any of the exceptions presented below, will pay a tax of 8% of the total cost amount of the project (See Note 19). The exceptions for the 8% Construction Tax imposed by the Municipality are as follow:

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

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

15. INTERGOVERNMENTAL REVENUES

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

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

16. PENSION PLAN

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

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

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

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The Municipality is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

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

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

16. PENSION PLAN (continuation)

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

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

Funding Policy

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

Contribution requirements are established by law and are as follows:

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

Annual Contribution

Total employee contributions to the above-mentioned plans during the year ended June 30, 2009, 2008 and 2007 amounted to approximately \$915,887. The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	LAW NO.447	SYSTEM 2000
2009	\$ 87,618	\$ 237,958
2008	91,709	220,621
2007	97,187	217,303

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

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

17. CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

17. CONTINGENCIES (continuation)

A. CLAIMS AND JUDGMENTS (continuation)

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

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

18. COMMITMENTS

A. Operating Leases

The Municipality leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund and in other governmental funds for the year ended June 30, 2009, amounted to approximately \$163,000 and \$87,000, respectively. Management believes that the summary of the future minimum rental commitments under noncancelable equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Construction

The Municipality had commitments at June 30, 2009 of approximately \$525,240 for the construction, improvements, or renovation of several municipal facilities.

C. Other Commitments

At June 30, 2009, the general fund had a deficit of \$1,360,730 which will be covered with future budgetary appropriations of the general fund.

19. SUBSEQUENT EVENTS

On July 14, 2009, the Municipality Legislature, by means of Ordinance Number 01-A, Series 2009-2010, approved an amendment of Ordinance Number 3, Series 2006-2007, to provide for a temporary reduction of the construction excise taxes from 8% to 6% for the period of four month ended October 31, 2009.

On September 24, 2009, the Municipality Legislature, by means of Resolution Number 34 ENM-OT, Series 2009-2010, approved a donation to "Organización de Agricultores del Barrio Espino, Inc. (OABE)", a non-for-profit organization, for the amount of \$100,000 and to promote the acquisition of the enterprise by the Municipality. The organization manufactured fruit juice of various flavors under the trademark of "Festival". This resolution was amended by Resolution Number 50 ENM-OT of October 20, 2009 to modify the total donation to a total amount of \$156,700.35.

20. NET ASSETS/FUND BALANCES RESTATEMENTS

A. Net Assets Restatements

During the year, the Municipality adjusted the governmental net assets for unrecognized revenues and expenses. The following schedule reconciles the June 30, 2008 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2008, for Governmental Activities.

Net Assets, as Previously Reported, At June 30, 2008	\$ 18,799,417
Adjustment to Revenues - SBGP	<u>(78,414)</u>
Beginning Net Assets, as Restated, At July 1, 2008	<u>\$ 18,721,003</u>

B. Fund Balances Restatements

The following reconciles the June 30, 2008 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2008 for the various funds:

	GENERAL FUND	DEBT SERVICE FUND
Fund Balance, as Previously Reported, June 30, 2008	\$ (1,150,819)	\$ 1,869,987
Transfer of Cash for Sales and Usage Taxes	<u>(161,243)</u>	<u>161,243</u>
Beginning Net Assets, as Restated, July 1, 2008	<u>\$ (1,312,062)</u>	<u>\$ 2,031,230</u>

END OF NOTES

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget
BUDGETARY FUND BALANCE, JULY 1, 2008	\$ (2,993,101)	\$ (2,993,101)	\$ (2,993,101)	\$ -
Resources (Inflows):				
Property Taxes	2,992,136	3,071,214	3,442,204	370,990
Volume of Business Taxes	2,506,200	2,506,200	3,027,403	521,203
Sales and Usage Taxes	1,505,120	1,505,120	917,929	(587,191)
Intergovernmental Revenues	5,740,463	5,740,460	5,824,236	83,776
License and Permits	1,547,434	1,547,434	587,611	(959,823)
Miscellaneous	158,500	194,500	446,361	251,861
Operating Transfer In	-	-	1,231,316	1,231,316
Total Resources (Inflows)	14,449,853	14,564,928	15,477,060	912,132
Amounts Available for Appropriation	11,456,752	11,571,827	12,483,959	912,132
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,638,214	1,801,019	1,684,259	116,760
General Government	6,044,614	6,529,060	6,232,340	296,720
Public Safety	1,189,389	892,669	844,164	48,505
Public Works	1,608,362	1,542,498	1,939,834	(397,336)
Culture and Recreation	812,346	718,213	736,822	(18,609)
Health and Sanitation	624,038	624,038	629,369	(5,331)
Human Services and Welfare	57,040	57,040	57,040	-
Solid Wasted Disposal	2,063,000	2,063,000	2,235,082	(172,082)
Capital Outlays	17,600	17,197	16,780	417
Transfer to Other Funds	395,250	320,194	1,089,985	(769,791)
Total Charges to Appropriations	14,449,853	14,564,928	15,465,675	(900,747)
BUDGETARY FUND BALANCE, JUNE 30, 2009	\$ (2,993,101)	\$ (2,993,101)	\$ (2,981,716)	\$ 11,385

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 46)	\$ 12,483,959
Difference – Budget to GAAP:	
Transfers from other funds are budgetary resources but are not revenues for financial reporting purposes	(1,231,316)
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>2,993,101</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 14,245,744</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 46)	\$ 15,465,675
Difference – Budget to GAAP:	
Expenditures that are considered for financial reporting purpose but are not outflows for budgetary reporting purposes	-
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(604,704)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	-
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(1,089,985)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 13,770,986</u>

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

Budgetary Fund Balance, June 30, 2009	\$ (2,981,716)
Timing Differences:	
Non-budgetary Items	2,225,690
Change in Encumbrances	<u>(604,704)</u>
Unreserved Fund Balance, June 30, 2009	<u>\$ (1,360,730)</u>

END OF THIS SECTION