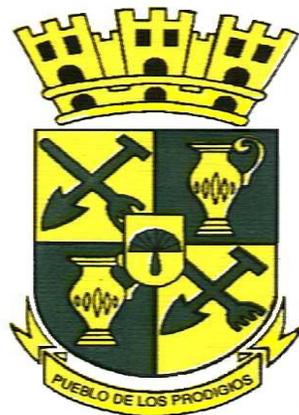




**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2009



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2009

TABLE OF CONTENTS

	Pages
<u>PART I – FINANCIAL:</u>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part I): Management's Discussion and Analysis	3-9
<u>BASIC FINANCIAL STATEMENTS:</u>	
Governmental Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Governmental Funds Financial Statements:	
Balance Sheet	12
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances.....	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	15
Notes to the Basic Financial Statements	16-44
Required Supplementary Information:	
Required Supplementary Information (Part II): Budgetary Comparison Schedule – General Fund	45
Notes to Budgetary Comparison Schedule – General Fund	46-47

INDEPENDENT AUDITOR'S REPORT

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

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

As discussed in Note 4 to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Sabana Grande, Puerto Rico, as of June 30, 2009, or the changes in financial position thereof for the year then ended.

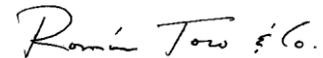
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund, and the aggregate remaining fund information of the Municipality of Sabana Grande, Puerto Rico, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the Municipality of Sabana Grande, 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 9 and 45 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.



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

Yauco, Puerto Rico
December 18, 2009

Stamp #2474127 was affixed to
the original of this report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The management of **Municipality of Sabana Grande**, Puerto Rico (**Municipality**) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

- ❖ a broader basis in focusing important issues;
- ❖ acknowledgement of an overview of the Municipality's financial activities;
- ❖ provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- ❖ identification of uses of funds in the financing of the Municipality's variety of activities and;
- ❖ assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The assets of the Municipality exceeded its liabilities at June 30, 2009 by \$16,707,336, and at June 30, 2008 by \$15,756,139, as restated;
- ❖ The Municipality's total net assets increase by \$951,197 during fiscal year 2008-2009;
- ❖ As of June 30, 2009, the Municipality's governmental funds reported combined ending fund balances of \$7,687,223, and increase \$996,323 from the prior year;
- ❖ At June 30, 2009, the unrestricted deficit was \$2,182,499. During fiscal year 2008-2009, the Municipality issue \$590,000 in bonds debt;
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2009 were \$26,122,553;
- ❖ The investment in capital assets for this year was \$14,788,864;
- ❖ Loans principal payments were \$371,000 and \$330,000 in 2009 and 2008, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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 net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. Property taxes, municipal license tax, state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, net assets exceeded liabilities by \$16,707,336 as of June 30, 2009 versus \$15,756,139 as of June 30, 2008. Our analysis below focuses on the net assets (**Table 1**) and changes in net assets of the Municipality's governmental activities.

Table 1		
Statement of Net Assets	2009	2008
Current and non-current assets	\$ 10,699,386	\$ 9,610,380
Capital assets	<u>18,774,943</u>	<u>18,021,054</u>
Total Assets	<u>29,474,329</u>	<u>27,631,434</u>
Current liabilities	2,947,989	2,426,958
Long-term liabilities	<u>9,819,004</u>	<u>9,448,337</u>
Total Liabilities	<u>12,766,993</u>	<u>11,875,295</u>
Net assets:		
Investment in capital assets, net of related debt	14,788,864	14,507,440
Restricted	8,788,617	7,926,321
Deficit	<u>(6,870,145)</u>	<u>(6,677,622)</u>
Total Net Assets	<u>\$ 16,707,336</u>	<u>\$ 15,756,139</u>

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net assets represents resources that are subject to external restrictions on how they may be used.

Total Net Assets of the Municipality's governmental activities were \$16,707,336. The unrestricted deficit was \$6,870,145 at June 30, 2009, an increase of \$192,523 from prior year.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the Municipality's net assets. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$8,811,824. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$951,197.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The Municipality experienced a substantial increase in grant and contributions due to increase in Head Start Program Grant. The cost of all governmental activities this year was \$21,581,414. **Table 2** presents the cost of each of the Municipality's largest programs.

Table 2			
Statement of Activities	2009	2008	
Revenues			
Grants and contributions	\$ 11,002,278	\$ 6,440,121	
General revenues:			
Property taxes	1,821,738	2,447,578	
Volume of business taxes	877,227	1,059,702	
Sales taxes	603,335	551,481	
Intergovernmental	5,382,648	4,910,194	
Rent	273,628	180,422	
Licenses and permits	151,471	316,555	
Miscellaneous	652,974	569,816	
Charges for services	1,767,312	1,543,756	
Total revenues	<u>22,532,611</u>	<u>18,019,625</u>	
Expenses			
Mayor and municipal legislature	2,467,952	2,188,717	
General government	2,874,945	2,813,866	
Public safety	562,983	523,895	
Public works	2,437,212	2,572,778	
Culture and recreation	424,381	438,730	
Health and sanitation	597,899	58,475	
Solid waste disposal	91,676	231,873	
Human services and welfare	4,791,957	4,770,771	
Urban development	1,672,783	875,756	
Education	5,263,621	5,386,336	
Interest on long-term debts	396,005	440,527	
Total expenses	<u>21,581,414</u>	<u>20,301,724</u>	
Changes in net assets	951,197	(2,282,099)	
Net assets – beginning, as restated	<u>15,756,139</u>	<u>18,038,238</u>	
Net assets – ending	<u>\$ 16,707,336</u>	<u>\$ 15,756,139</u>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table 3			
Balance Sheet		2009	2008
Assets:			
Total assets – Major Funds	\$	9,985,500	\$ 7,616,339
Total assets – Other Funds		<u>2,496,904</u>	<u>3,429,795</u>
Combined total assets		<u>12,482,404</u>	<u>11,046,134</u>
Liabilities:			
Total liabilities – Major Funds		3,790,757	3,482,412
Total liabilities – Other Funds		<u>1,004,424</u>	<u>872,822</u>
Combined total liabilities		<u>4,795,181</u>	<u>4,355,234</u>
Fund Balances:			
Reserved – Major Funds		8,377,242	6,476,674
Reserved – Other Funds		1,492,480	2,556,973
Unreserved – Major Funds		<u>(2,182,499)</u>	<u>(2,342,747)</u>
Combined total fund balances		<u>7,687,223</u>	<u>6,690,900</u>
Total liabilities and fund balances	\$	<u>12,482,404</u>	\$ <u>11,046,134</u>

Table 4			
Changes in Fund Balances		2009	2008
Revenues:			
Total revenues – Major Funds	\$	16,109,345	\$ 15,938,749
Total revenues – Other Funds		<u>6,791,948</u>	<u>4,867,949</u>
Combined total revenues		<u>22,901,293</u>	<u>20,806,698</u>
Expenditures:			
Total expenditures – Major Funds		15,327,855	16,021,155
Total expenditures – Other Funds		<u>7,167,115</u>	<u>5,560,484</u>
Combined total expenditures		<u>22,494,970</u>	<u>21,581,639</u>
Excess of revenues over (expenditures)		<u>406,323</u>	<u>(774,941)</u>
Other financing sources (uses):			
Proceed from issuance of bonds		590,000	330,000
Transfer – In		348,732	405,184
Transfer – Out		<u>(348,732)</u>	<u>(405,184)</u>
Combined other financing sources (uses), net		<u>590,000</u>	<u>330,000</u>
Net changes in fund balance		996,323	(444,941)
Fund Balance – beginning, as restated		<u>6,690,900</u>	<u>7,135,841</u>
Fund Balance – ending	\$	<u>7,687,223</u>	\$ <u>6,690,900</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2009, the Municipality's governmental funds reported combined ending fund balances of \$7,687,223, an increase of \$996,323 from the prior year.

The Municipality has an unreserved fund deficit of \$2,182,499 in its General Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed; (a) to liquidate prior year obligations (\$215,217), (b) to pay debt service (\$295,326) and (c) for other restricted purposes (\$9,359,179).

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2009 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2009 amounted to \$18,774,943 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$1,528,971. Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. **Table 5** present the major classes of capital assets.

Table 5	
Capital Assets	Amount
Construction in progress	\$ 824,388
Motor vehicles	548,728
Machinery and equipment	<u>155,855</u>
Total Assets	<u>\$ 1,528,971</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

LONG-TERM DEBT

At June 30, 2009 the Municipality had total of \$9,819,004 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$7,239,000 comprises debt backed by the full faith and credit of the government and \$2,580,004 is other obligations.

Table 6 Long Term Debts	Amount
General obligations	\$ 6,494,000
Special notes	745,000
Others	<u>2,580,004</u>
Total Long Term Debts	<u>\$ 9,819,004</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2009 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 873-2060.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
STATEMENT OF NET ASSETS
June 30, 2009**

	Governmental Activities
ASSETS:	
Cash and Investments	\$ 7,798,175
Cash with Fiscal Agent	2,285,451
Receivables (net):	
Property Taxes	113,119
Sales Taxes	43,170
Intergovernmental	373,252
Federal Grants	72,204
Others	<u>14,015</u>
	<u>10,699,386</u>
Capital Assets:	
Property, Plant and Equipment	26,122,553
Accumulated Depreciation	<u>(7,347,610)</u>
Total Capital Assets	<u>18,774,943</u>
TOTAL ASSETS	<u>\$29,474,329</u>
 LIABILITIES:	
Accounts Payable and Accrued Expense	\$ 1,065,607
Accrued Interest	71,115
Due to Governmental Units	562,391
Deferred Revenue:	
Volume of Business Tax	816,000
Federal Grants	432,876
Long-Term Liabilities:	
Due within One Year	1,164,382
Due in More than One Year	<u>8,654,622</u>
Total Liabilities	<u>12,766,993</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	14,788,864
Restricted for:	
Debt Service	295,326
Others Purposes	8,493,291
Unrestricted (Deficit)	<u>(6,870,145)</u>
Total Net Assets	<u>\$16,707,336</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,467,952	\$ -	\$ -	\$ -	\$ (2,467,952)
General Government	2,874,945	-	-	-	(2,874,945)
Public Safety	562,983	-	-	265,110	(297,873)
Public Works	2,437,212	-	-	-	(2,437,212)
Culture and Recreation	424,381	-	18,917	-	(405,464)
Health and Sanitation	597,899	-	-	-	(597,899)
Solid Waste Disposal	91,676	-	-	-	(91,676)
Human Services and Welfare	4,791,957	1,767,312	2,277,598	-	(747,047)
Urban Development	1,672,783	-	-	2,991,638	1,318,855
Education	5,263,621	-	5,449,015	-	185,394
Interest on Long-Term Debt	396,005	-	-	-	(396,005)
Total Governmental Activities	\$ 21,581,414	\$ 1,767,312	\$ 7,745,530	\$ 3,256,748	\$ (8,811,824)

General Revenues:

Taxes:

Property, levied for General Purposes	\$ 1,468,508
Property, levied for Debt Services	353,230
Volume of Business	877,227
Sales, levied for General Purposes	536,731
Sales, levied for Debt Services	66,604
Intergovernmental	5,382,648
Rent	273,628
Licenses and Permits	151,471
Miscellaneous	652,974
Total General Revenues	9,763,021

CHANGE IN NET ASSETS

	951,197
Net Assets - Beginning of Year - Restated (Note 18)	15,756,139
NET ASSETS - END OF YEAR	\$ 16,707,336

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and Investments, including cash equivalents	\$ 638,348	\$ 121,148	\$ 4,318,589	-	\$ 1,205,172	\$ 1,514,918	\$ 7,798,175
Cash with Fiscal Agent	16,967	-	-	1,536,075	262,913	469,496	2,285,451
Receivables:							
Property Taxes	64,174	-	-	-	-	48,945	113,119
Sales Tax	43,170	-	-	-	-	-	43,170
Intergovernmental	373,252	-	-	-	-	-	373,252
Federal Grants	-	-	-	-	-	72,204	72,204
Due from Other Funds	308,102	-	525,584	-	572,006	377,326	1,783,018
Others	-	-	-	-	-	14,015	14,015
Total Assets	<u>\$ 1,444,013</u>	<u>\$ 121,148</u>	<u>\$ 4,844,173</u>	<u>\$ 1,536,075</u>	<u>\$ 2,040,091</u>	<u>\$ 2,496,904</u>	<u>\$ 12,482,404</u>
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable and Accrued Expense Liabilities	\$ 476,847	\$ 25,594	\$ 59,703	\$ -	\$ 135,888	\$ 215,575	\$ 913,607
Bonds and Notes Payable	-	-	-	-	-	152,000	152,000
Accrued Interest	-	-	-	-	-	71,115	71,115
Due to Governmental Units	562,391	-	-	-	-	-	562,391
Due to Other Funds	1,474,916	-	79,690	-	-	228,412	1,783,018
Deferred Revenue:							
Volume of Business Tax	816,000	-	-	-	-	-	816,000
Property Taxes	64,174	-	-	-	-	-	64,174
Federal Grants	-	95,554	-	-	-	337,322	432,876
Total Liabilities	<u>3,394,328</u>	<u>121,148</u>	<u>139,393</u>	<u>-</u>	<u>135,888</u>	<u>1,004,424</u>	<u>4,795,181</u>
Fund Balances:							
Reserve For:							
Encumbrances	215,217	-	-	-	-	-	215,217
Debt Service	-	-	-	-	-	295,326	295,326
Other Purposes	16,967	-	4,704,780	1,536,075	1,904,203	1,197,154	9,359,179
Unreserved (Deficit)	(2,182,499)	-	-	-	-	-	(2,182,499)
Total Fund Balances	<u>(1,950,315)</u>	<u>-</u>	<u>4,704,780</u>	<u>1,536,075</u>	<u>1,904,203</u>	<u>1,492,480</u>	<u>7,687,223</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,444,013</u>	<u>\$ 121,148</u>	<u>\$ 4,844,173</u>	<u>\$ 1,536,075</u>	<u>\$ 2,040,091</u>	<u>\$ 2,496,904</u>	<u>\$ 12,482,404</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Total Fund Balances – Governmental Funds (Page 12) \$ 7,687,223

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

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

Non Depreciable Capital Assets	\$ 3,842,607	
Depreciable Capital Assets	19,799,751	
Infrastructure Assets	2,480,195	
Accumulated Depreciation	<u>(7,347,610)</u>	
Total Capital Assets		18,774,943

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:

Municipal Revenue Collection Center	64,174
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	7,239,000	
Compensated Absences	2,024,127	
Property Tax Debt – Law 142	372,804	
Property Tax Debt – Law 146	33,401	
LIMS Repayment Plan	79,350	
Property Tax Advances	<u>70,322</u>	
Total Long-Term Liabilities		<u>(9,819,004)</u>

Total Net Assets of Governmental Activities (Page 10)..... \$ 16,707,336

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General Fund</u>	<u>Head Start Fund</u>	<u>State Assignment Fund</u>	<u>Loans Fund</u>	<u>Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Property Taxes	\$ 1,837,190	\$ -	\$ -	\$ -	\$ -	\$ 353,230	\$ 2,190,420
Sales Tax	536,731	-	-	-	-	66,604	603,335
Volume of Business Taxes	877,227	-	-	-	-	-	877,227
Federal Assistances	-	4,378,308	-	-	-	3,312,096	7,690,404
Intergovernmental	5,382,648	-	790,561	-	1,228,607	3,060,018	10,461,834
Health Services	-	-	-	-	-	-	-
Licenses and Permits	151,471	-	-	-	-	-	151,471
Rent	273,628	-	-	-	-	-	273,628
Miscellaneous	652,974	-	-	-	-	-	652,974
Total Revenues	<u>9,711,869</u>	<u>4,378,308</u>	<u>790,561</u>	<u>-</u>	<u>1,228,607</u>	<u>6,791,948</u>	<u>22,901,293</u>
EXPENDITURES							
Current							
Mayor and Municipal Legislature	2,421,934	-	-	-	-	-	2,421,934
General Government	2,391,190	-	-	2,837	-	-	2,394,027
Public Safety	480,633	-	-	-	-	66,510	547,143
Public Works	2,206,465	-	-	-	-	-	2,206,465
Culture and Recreation	396,033	-	-	-	-	6,157	402,190
Health and Sanitation	161,573	-	-	-	-	523,232	684,805
Human Services and Welfare	1,044,996	-	-	-	-	3,649,981	4,694,977
Urban Development	-	-	827,147	-	590,571	972,470	2,390,188
Education	-	4,378,308	-	-	-	885,313	5,263,621
Capital Outlay	-	-	196,030	214,435	15,703	296,447	722,615
Debt Service:	-	-	-	-	-	-	-
Principal	-	-	-	-	-	371,000	371,000
Interest and Other Charges	-	-	-	-	-	396,005	396,005
Total Expenditures	<u>9,102,824</u>	<u>4,378,308</u>	<u>1,023,177</u>	<u>217,272</u>	<u>606,274</u>	<u>7,167,115</u>	<u>22,494,970</u>
Excess (deficiency) of revenues over (under) expenditures	609,045	-	(232,616)	(217,272)	622,333	(375,167)	406,323
OTHER FINANCING SOURCES (USES)							
Proceed From Issuance of Bond	-	-	-	590,000	-	-	590,000
Transfers - In	-	-	-	-	-	348,732	348,732
Transfers - Out	(348,732)	-	-	-	-	-	(348,732)
Total Other Financing Sources and Uses	<u>(348,732)</u>	<u>-</u>	<u>-</u>	<u>590,000</u>	<u>-</u>	<u>348,732</u>	<u>590,000</u>
Net Change in Fund Balances	260,313	-	(232,616)	372,728	622,333	(26,435)	996,323
Fund Balance - Beginning as Restated (Note 18)	<u>(2,210,628)</u>	<u>-</u>	<u>4,937,396</u>	<u>1,163,347</u>	<u>1,281,870</u>	<u>1,518,915</u>	<u>6,690,900</u>
Fund Balances - Ending	<u>\$ (1,950,315)</u>	<u>\$ -</u>	<u>\$ 4,704,780</u>	<u>\$ 1,536,075</u>	<u>\$ 1,904,203</u>	<u>\$ 1,492,480</u>	<u>\$ 7,687,223</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**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 – Total Governmental Funds (Page 14).....		\$ 996,323
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p> <p>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:</p>		
Urban Development and Capital Outlay	\$ 1,528,971	
Depreciation Expense.....	<u>(775,082)</u>	
Excess of Capital Outlay over Depreciation Expense		753,889
Revenues in the statement of activities that not provide current financial resources are not reported as revenue in the funds		64,174
Revenues in the governmental funds that correspond to prior year resources are not recorded as revenue in the Statement of Activities.....		(432,857)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets. In the current period, these amounts are:</p>		
General obligation bond.....		(590,000)
Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long–Term Liabilities in the Statement of Net Assets. In the current year the repayments were.....		371,000
<p>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:</p>		
Increase in Compensated Absences	(178,284)	
Decrease in Property tax Debt – Ley 142.....	7,199	
Decrease in Property tax Debt – Ley 146.....	1,452	
Decrease in LIMS Repayment Plan.....	28,623	
Increase in Property Tax Advances	<u>(70,322)</u>	
Total Additional Expenditures		<u>(211,332)</u>
Change in Net Assets of Governmental Activities (Page 11).....		<u>\$ 951,197</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Sabana Grande, Puerto Rico (Municipality) was founded in the year 1813, 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 fourteen 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.

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

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

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the fiscal year 2003-2004: GASBS No. 37, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2009, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity

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.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

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.

B. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

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

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee’s vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2009, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund’s current financial resources (short-term expendable resources) with capital assets and long-term obligations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

The Statement of Net Assets presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Assets** – These consists 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, generally it is the Municipality's policy to use restricted resources first, then the unrestricted resources as they are needed.

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) 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. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major fund:

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.

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignment is the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

Loans Fund – This is the fund used to account for all financial resources and transactions related to the loans for operational purposes, construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

Capital Projects Fund – This is the fund used to account for all grants or other restricted revenue sources related to capital projects. The uses and limitations of each capital projects fund are specified by Municipality ordinances or federal and state statutes.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the Government-Wide Statement of Net Assets.

D. Financial Reporting Presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation (Continued)

Special Revenue Fund – Local and State Grants – This is the fund used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

Special Revenue Fund – Section 8 Voucher Program – This is the fund used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Head Start – This is the fund used to account for revenues derived from head start program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – State and Local Grants – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

Capital Projects Fund – Federal Grants – This is the fund used to account for revenues derived from federal grants related to capital projects. The uses and limitations of each capital projects fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

E. Budgetary Data

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and 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 supplemental appropriations. During the year, several supplemental appropriations were necessary.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 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;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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.

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. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

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

F. Cash, Cash Equivalent and Investment

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

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

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

G. Receivables

Receivable are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

H. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. 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. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Capital Assets	Years
Buildings	50
Improvement Other Than Buildings	50
Equipment and Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

J. Long-Term Obligations

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

K. Compensated Absences

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences (Continued)

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. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2009.

<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND</u> <u>CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 1,845,843	\$ 178,284	\$ -	\$ 2,024,127	\$ 748,927	\$ 1,275,200

L. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality’s insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

M. 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 reciprocal and nonreciprocal interfund activities:

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Reservations of Fund Balance – Governmental Funds

Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- ❖ **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- ❖ **Debt Service Fund** – Represents net assets available to finance future debt service payments. The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former.
- ❖ **Other Purposes** – Represents net assets available for specific use and/or legally segregated for other specific future use.

O. Claims and Judgments

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

P. Use of Estimates

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

Q. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico 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 multi-employer 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 Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Accounting for Pension Costs (Continued)

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.

R. Risk Financing

The Municipality carries commercial insurance to cover 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.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (“CRIM”) for the year ended June 30, 2009 amounted to \$150,946. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$107,672 for workers compensation insurance covering all municipal employees.

S. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- ❖ GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and reporting requirements for derivative instruments, including hedge accounting. This statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes the classification and terminology of fund balances and amends the definitions of the different types of governmental funds. This statement is effective for periods beginning after June 15, 2010;
- ❖ GASB Concepts Statements No. 5, *Service Efforts and Accomplishments – an Amendment of GASB Concepts Statements No. 2*. This statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2. ;

The Municipality’s management has concluded that the future adoption of these GASB Statements do not have any impact on the Municipality’s basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the 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 investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB 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. 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 – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$638,348 in the general fund, \$121,148 in the head start fund, \$4,318,589 in the state assignment fund and \$1,205,172 in the capital project fund, were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$1,514,918 that were fully collateralized.

The deposits at GDB of \$16,967 in the general fund, the \$1,536,075 in the loans fund, the \$262,913 in the capital projects fund, and the \$469,496 in other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. Property Taxes Receivables

Property taxes receivable in general fund represents contributions from the Traditional and Electronic Lottery of the fiscal year 2007-2008, not collected by the Municipality at June 30, 2009. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 64,174
Total	<u>\$ 64,174</u>

In the governmental funds, this receivable was classified as deferred revenue, because was not available to pay liabilities of the current period. In the government-wide financial statements, this receivable is recognized as revenue.

Property taxes receivable in the debt service fund represents advances from fiscal year 2008-2009, not collected by the Municipality at June 30, 2009. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 48,945
Total	<u>\$ 48,945</u>

B. Sales Tax Receivables

As described below in Note 12, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. 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. Therefore, sales tax receivable of \$43,170 in the general fund represents the amount due by the taxpayers at June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 – RECEIVABLES (CONTINUED)

C. Intergovernmental Receivables

As described below in Note 19, on March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The Municipality used part of this stimulus to paid current debts maintained with local governmental entities. Intergovernmental receivable at June 30, 2009 related to this stimulus amounted \$373,252.

D. Federal Grants Receivables

Federal grants receivable in other governmental funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the intergovernmental receivable:

<u>Description</u>	<u>Amount</u>
Head Start Program	\$ 1,232
Child Care and Development Block Grant	34,357
Community Development Block Grants – State Program	<u>36,615</u>
Total	<u>\$ 72,204</u>

E. Due From Other Funds

Interfund receivables and payables at June 30, 2009 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	\$ 228,412
General Fund	State Assignment Fund	Interest revenues	79,690
State Assignment Fund	General Fund	Reimbursable expenditures	525,584
Capital Project Fund	General Fund	Cash pool in the same bank account and interest revenues	572,006
Other Governmental Funds	General Fund	Cash pool in the same bank account	<u>377,326</u>
Total			<u>\$ 1,783,018</u>

F. Other Receivables

Other receivables in other governmental funds, for the amount of \$14,015, represent Section 8 Housing Choice Vouchers receivables at June 30, 2009, resulting from fraud recoveries.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2008	Additions	Retirements / Reclassifications	Balance June 30, 2009
Capital asset, not being depreciated:				
Land	\$ 1,395,791	\$ -	\$ -	\$ 1,395,791
Construction in progress	<u>1,622,428</u>	<u>824,388</u>	<u>-</u>	<u>2,446,816</u>
Total capital assets not being depreciated	<u>3,018,219</u>	<u>824,388</u>	<u>-</u>	<u>3,842,607</u>
Capital assets, being depreciated:				
Buildings	13,633,589			13,633,589
Infrastructure	2,480,195			2,480,195
Machinery and equipment	2,023,723	155,855		2,179,578
Motor vehicles	<u>3,437,856</u>	<u>548,728</u>	<u>-</u>	<u>3,986,584</u>
Total capital assets being depreciated	<u>21,575,363</u>	<u>704,583</u>	<u>-</u>	<u>22,279,946</u>
Total cost basis of capital assets	24,593,582	1,528,971		26,122,553
Less accumulated depreciation for:				
Buildings	(1,927,348)	(247,647)		(2,174,995)
Infrastructure	(315,578)	(37,203)		(352,781)
Machinery and equipment	(1,595,858)	(125,288)		(1,721,146)
Motor vehicles	<u>(2,733,744)</u>	<u>(364,944)</u>	<u>-</u>	<u>(3,098,688)</u>
Total accumulated depreciation	<u>(6,572,528)</u>	<u>(775,082)</u>	<u>-</u>	<u>(7,347,610)</u>
Total capital assets being depreciated, net	<u>15,002,835</u>	<u>(70,499)</u>	<u>-</u>	<u>14,932,336</u>
Governmental activities capital assets, net	<u>\$ 18,021,054</u>	<u>\$ 753,889</u>	<u>\$ -</u>	<u>\$ 18,774,943</u>

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

Governmental activities	Amount
General government	\$ 269,585
Urban development	106,983
Mayor and municipal	46,018
Public Safety	15,840
Public Works	230,747
Culture and Recreation	22,191
Sanitation	4,770
Human services and welfare	<u>78,948</u>
Total depreciation expenses	<u>\$ 775,082</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – CAPITAL ASSETS (CONTINUED)

GASB Statement No. 34 requires to retroactively apply the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2008-2009, and not paid by the Municipality at June 30, 2009. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 297,458	\$ 179,389	\$ 476,847
Head Start Fund	25,594		25,594
State Assignment Fund	59,703		59,703
Capital Project Fund	135,888		135,888
Other Governmental Funds	<u>215,575</u>	<u>-</u>	<u>215,575</u>
Total	<u>\$ 734,218</u>	<u>\$ 179,389</u>	<u>\$ 913,607</u>

NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2009, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 55,798
General Service Administration	147,768
State Retirement System Administration	73,491
State Department of Treasury	155,921
State Department of Labor	<u>129,413</u>
Total	<u>\$ 562,391</u>

NOTE 7 – DEFERRED REVENUES

A. Volume of business tax – The deferred revenues of \$816,000 in the general fund relates to volume of business tax collected in fiscal year 2008-2009 that will be earned in fiscal year 2009-2010.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 7 – DEFERRED REVENUES (CONTINUED)

B. Property Taxes

As described in Note 3, during fiscal year 2009-2010 the Municipality received \$64,174 from the CRIM, related to contributions from the Traditional and Electronic Lottery of the fiscal year 2007-2008, not collected by the Municipality at June 30, 2009. In the governmental funds, this receivable was classified as deferred revenue, because was not available to pay liabilities of the current period.

C. Federal Grants – The deferred revenues presented in the head start fund and in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Head Start Program	\$ 95,554
Child and Adult Care Food Program	197,216
Special Programs for the Aging Title III-Part B	16,080
Puerto Rico Public Housing Administration	113,576
Others	<u>10,450</u>
Total	<u>\$ 432,876</u>

NOTE 8 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Description</u>	<u>Beginning Balance, as restated</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 6,225,000	\$ 590,000	\$ (321,000)	\$ 6,494,000	\$ 326,000
Notes Payable	795,000		(50,000)	745,000	50,000
Compensated absences	1,845,843	178,284		2,024,127	748,927
Property Tax Debt – Law 142	380,003		(7,199)	372,804	7,651
Property Tax Debt – Law 146	34,853		(1,452)	33,401	1,452
LIMS Repayment Plan	107,973		(28,623)	79,350	30,352
Property Tax Advances	<u>-</u>	<u>70,322</u>	<u>-</u>	<u>70,322</u>	<u>-</u>
Total	<u>\$ 9,388,672</u>	<u>\$ 838,606</u>	<u>\$ (408,274)</u>	<u>\$ 9,819,004</u>	<u>\$ 1,164,382</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS

The Municipality issues general and special obligation bonds, principally, to provide funds for the acquisition and construction of major capital facilities. General obligations bonds as of June 30, 2009, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$1,305,000, Series 2003, for construction purposes, payable in annual installments ranging from \$20,000 to \$100,000, excluding interests from 4.17% to 5.31%, through July 1, 2027.	\$1,120,000
\$735,000 Series 2001, for construction purposes, payable in annual installments ranging from \$15,000 to \$75,000, excluding interests from 2.78% to 6.13%, through July 1, 2020.	535,000
\$1,760,000 Series 2001, for purchase of building, payable in annual installments ranging from \$25,000 to \$160,000, excluding interests from 5.00% to 8.00%, through July 1, 2025.	1,455,000
\$755,000 Series 2001, for operation purposes, payable in annual installments ranging from \$10,000 to \$65,000, excluding interests from 5.00% to 8.00%, through July 1, 2025.	625,000
\$60,000, Series 2000, for construction purposes, payable in annual installments ranging from \$1,000 to \$6,000, excluding interests from 5.17% to 7.29%, through July 1, 2024.	47,000
\$454,000, Series 2002 (previously \$600,000, Series 2000), payable in annual installments ranging from \$9,000 to \$29,000, excluding interests at 4.50%, through January 1, 2027 (Water & Waste Disposal Loans & Grants).	374,000
\$140,000, Series 1999, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests from 4.865% to 6.56%, through July 1, 2023.	85,000
\$230,000, Series 1998, for construction purpose, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests from 4.865% to 6.56%, through July 1, 2022.	170,000
\$121,000, Series 2000, for operation purposes, payable in annual installments ranging from \$3,000 to \$8,000, excluding interests at 4.50%, through January 1, 2023.	88,000
\$310,000, Series 1997, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 4.70% to 6.63%, through July 1, 2021.	220,000
\$222,000 Series 1999, for construction purposes, payable in annual installments ranging from \$6,000 to \$16,000, excluding interests at 4.50% (Water & Waste Disposal Loans & Grants), through January 1, 2021.	152,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS (CONTINUED)

DESCRIPTION	AMOUNT
\$350,000 Series 1999, for construction purposes, payable in annual installments ranging from \$14,000 to \$29,000, excluding interests at 4.75% (Community Facilities Loan), through January 1, 2016	178,000
\$350,000 Series 1998, for construction purposes, payable in annual installments ranging from \$13,000 to \$31,000, excluding interests at 5.25%, through January 1, 2015 (Community Facilities Loan)	160,000
\$605,000, Series 2005, for operation purposes, payable in annual installments ranging from \$25,000 to \$60,000 excluding interest from 5.00% to 6.00%, through July 1, 2018.	420,000
\$330,000, Series 2008, for purchase of equipments, payable in annual installments ranging from \$45,000 to \$65,000 excluding interest from 3.93% to 7.50%, through July 1, 2014.	285,000
\$590,000, Series 2008, for purchase of equipments, payable in annual installments ranging from \$10,000 to \$50,000 excluding interest from 2.43% to 7.25%, through July 1, 2033.	<u>580,000</u>
Total General Obligations – Bonds	<u>\$ 6,494,000</u>

These bonds, except the 2001 Series amounting to \$755,000, the 2005 Series amounting to \$605,000 and the 2001 Series amounting to 1,760,000, are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. Bonds amounting \$755,000, \$605,000 and \$1,760,000 are payable with operational resources, and the CRIM retains the payment from the property tax advances of the Municipality.

B. NOTES PAYABLES

The proceeds of the issuance of notes payables are used principally to pay debt incurred in prior years and to cover the expenditures of a special event. Notes payables as of June 30, 2009, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$925,000, Series 2005, for operation purposes, payable in annual installments ranging from \$40,000 to \$85,000, excluding interests from 5.50% to 7.50%, through July 1, 2020.	<u>\$ 745,000</u>
Total Notes Payable	<u>\$ 745,000</u>

This note is payable with operational resources, and the CRIM retains the payment from the property tax advances of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

C. BONDS AND NOTES AMORTIZATION

The annual requirements to amortize the general obligations outstanding as of June 30, 2009 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2010	\$ 376,000	\$ 370,334	\$ 746,334
2011	403,000	433,650	836,650
2012	428,000	407,671	835,671
2013	456,000	384,817	840,817
2014	498,000	357,883	855,883
2015-2019	2,292,000	1,346,097	3,638,097
2020-2024	1,857,000	661,158	2,518,158
2025-2029	754,000	154,350	908,350
2030-2034	<u>175,000</u>	<u>32,986</u>	<u>207,986</u>
Total	<u>\$ 7,239,000</u>	<u>\$ 4,148,946</u>	<u>\$ 11,387,946</u>

D. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$1,030,834 of accrued sick leave benefits, and \$993,293 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

E. PROPERTY TAX DEBT – LAW 142

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$372,804.

F. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$33,401.

G. LIMS REPAYMENT PLAN

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$79,350.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

H. PROPERTY TAX ADVANCES

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. 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 CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the advances exceeded collections by \$70,322.

NOTE 9 – DEBT RETIREMENT

Revenues of the debt service fund consist 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.

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

NOTE 10 – PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 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.

The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 7). 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 of the assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – PROPERTY TAXES (CONTINUED)

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 provided that net volume of business of retail business does not exceed \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available because is in process of verification by external auditors.

The Traditional Lottery System of the Commonwealth (the Traditional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Traditional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- ❖ Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ❖ An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipality's Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

NOTE 11 – VOLUME OF BUSINESS TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Sabana Grande. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar or fiscal year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 – VOLUME OF BUSINESS TAXES (CONTINUED)

The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (See Note 7).

NOTE 12 – MUNICIPAL SALES TAXES

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Conversely, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effect) and implemented the sales and use tax ("sales tax") system. Accordingly with this law the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. Consequently, separate registration and filing forms are required of retailers.

On November 6, 2006, the Municipal Legislature of the Municipality approved the Ordinance No. 20, Series 2006-2007 establishing a citizenship contribution of 1.5% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. This Ordinance was effective on November 15, 2006 and the resources collected due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

Any person/corporation is required to register with each municipality in which it conducts commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 20th day following the month in which the tax was collected.

Also, on July 29, 2007, the Governor of Puerto Rico signed into Law an amendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant amendments were: first, to uniform the tax rate at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%, 05% of the 6% belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund; secondly the establishment of a Local Commercial Rule and the elimination of source and nexus rules to impose the sale and use tax. These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to solid waste and recycling programs, capital improvements and health and public safety costs.

During fiscal year 2008-2009 the Municipality earned the amount of \$603,335 related to this citizenship contribution program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 13 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, “in lieu of tax” payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 14 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Debt retirement	\$ 348,732
Total			\$ 348,732

NOTE 15 – EMPLOYEE’S RETIREMENT PLAN

The Employee’s Retirement System of the Government of Puerto Rico and its instrumentality (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality 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 Instrumentality, Assistants of 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.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee’s Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee’s salaries.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will 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. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- ❖ The present value of the future pension payments was computed by using a discount of 9%.
- ❖ Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE</u>	<u>PENSION BENEFITS</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The Municipality's actual contribution for the Fiscal Year Ended June 30, 2009 was \$134,425 under Law No. 447 and \$217,812 under System 2000. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2009. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 16 – CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. 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.

NOTE 17 – FUND DEFICIT

The Municipality has accumulated deficit of \$2,182,499 in the general fund. The Municipality's plan adopted with 2009/2010 budget includes a balanced operating budget achieved through cost-cutting measures in the previous fiscal years. The budget does not address the cumulative general fund deficit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 18 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Capital Project Fund	Other Governmental Fund
Fund balance, beginning	\$ (2,071,202)	\$ -	\$ 2,556,973
Puerto Rico Telephone Company debt	36,825		
Outstanding checks	39,336		
Treasury Department debt	(155,921)		
Department of Labor debt	(59,666)		
Section 8 Housing Choice Vouchers			3,821
Major fund reclassification		1,281,870	(1,281,870)
Major fund reclassification	-	-	239,991
Fund balance, beginning as restated	<u>\$ (2,210,628)</u>	<u>\$ 1,281,870</u>	<u>\$ 1,518,915</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

Description	Total
Net assets, beginning	\$ 15,832,078
Puerto Rico Telephone Company debt	36,825
Outstanding checks	39,336
Treasury Department debt	(155,921)
Section 8 Housing Choice Vouchers	3,821
Net assets, beginning as restated	<u>\$ 15,756,139</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 19 – SUBSEQUENT EVENTS

A. THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. This Act is designed primarily to combat the rising unemployment trends, put more money in the hands of consumers, and reduce the likelihood that state and local governments will need to raise taxes significantly. According to the White House press release, the legislation will do the following:

- ❖ Create or save 3.5 million jobs in the next 2 years;
- ❖ Provide direct tax relief to working and middle class families;
- ❖ Double the U.S. renewable energy generating capacity over 3 years;
- ❖ Stimulate private investment in renewable energy through tax credits and loan guarantees;
- ❖ Invest \$150 billion in U.S. infrastructure projects, and;
- ❖ Provide funds to U.S. state and local governments to support health and education programs.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5.6 million in grants and is eligible to obtain additional funding through other competitive federal programs. Therefore, the Municipality will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

B. INVESTMENT ON OUR INFRASTRUCTURE PLAN (PINI)

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The following are the objectives of this Plan:

- ❖ Provide an immediate stimulus to the economy through funding of infrastructure Projects Island wide, and;
- ❖ Speed-up priority infrastructure projects in all municipalities of Puerto Rico.

In the first phase, the municipalities can use the funds for the following:

- ❖ Funding of essential infrastructure, and;
- ❖ Those municipalities with deficit can use those them to partially or fully liquidate existing debts with governmental agencies.

The Municipality assigned part of these funds for infrastructure projects and another part for debts to agencies. Those debts were paid between July and August 2009.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
RESOURCES (INFLOWS):				
Property Taxes	\$ 1,837,190	\$ 1,837,190	\$1,837,190	\$ -
Sales Taxes	420,000	420,000	512,472	92,472
Volume of Business Taxes	900,000	900,000	877,227	(22,773)
Intergovernmental Revenues	5,228,479	5,228,479	5,009,396	(219,083)
Licenses and Permits	579,000	279,000	151,471	(127,529)
Rent	275,100	275,000	250,984	(24,016)
Miscellaneous	<u>1,004,485</u>	<u>1,314,484</u>	<u>633,761</u>	<u>(680,723)</u>
Total Resources (Inflows)	<u>10,244,254</u>	<u>10,254,153</u>	<u>9,272,501</u>	<u>(981,652)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current:				
Mayor and Municipal Legislature	2,253,479	2,661,711	2,520,879	140,832
General Government	2,761,758	2,471,975	2,384,184	87,791
Public Safety	491,326	487,652	480,865	6,787
Public Works	2,770,938	2,608,507	2,228,409	380,098
Culture and recreation	418,417	402,119	397,638	4,481
Health and Sanitation	74,309	166,676	161,573	5,103
Human Services and Welfare	1,081,402	1,062,888	1,051,290	11,598
Transfer to Other Funds	<u>392,625</u>	<u>392,625</u>	<u>348,732</u>	<u>43,893</u>
Total changes to appropriations	<u>10,244,254</u>	<u>10,254,153</u>	<u>9,573,570</u>	<u>680,583</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (301,069)</u>	<u>\$ (301,069)</u>

See accompanying Notes to Required Supplementary Information

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

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 (Page 45)	\$ 9,272,501
Differences-budget to GAAP:	
Prior and current adjustments to revenues	<u>439,368</u>
Total revenues as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances (Page 14)	<u>\$ 9,711,869</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis)“total charges to appropriations” from the budgetary comparison schedule (Page 45)	\$ 9,573,570
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditures for financial reporting purposes	54,697
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(202,087)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(348,732)
Adjustment to expenditures	<u>25,376</u>
Total expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances (Page 14)	<u>\$ 9,102,824</u>

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. BUDGETARY CONTROL (CONTINUED)

The unencumbered balance of any appropriation at the end of the fiscal 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 annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.