

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CAMUY
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2005**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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Independent Auditors' Report

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Camuy
Camuy, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Camuy of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

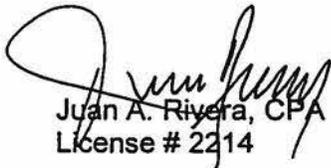
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Camuy of the Commonwealth of Puerto Rico, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, we have also issued our report dated December 23, 2005 on our consideration of the Government's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of our audit.

Our audit were performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A- 133, Audit of States, Local Governments, and Non-Profit Organizations, and is not required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by GASB. 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.


Juan A. Rivera, CPA
License # 2214

December 23, 2005
Toa Baja, Puerto Rico



Stamp NO. 2105591 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Camuy (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

FINANCIAL HIGHLIGHTS

- The Municipality net assets decreased by \$3,284,388.
- In the fund financial statements, general fund balances decreased by \$90,850.
- Capital projects funds increased by \$512,158.
- Capital expenditures amounted to \$578,124.

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2005 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2005. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

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, Government 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 is useful in evaluating the Municipality's near term financial 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, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$9,239,788 at June 30, 2005.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other

property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

**Municipality of Camuy
Condensed Statement of Net Assets
June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Current assets	\$ 5,046,189	\$ 6,027,454
Capital assets	18,324,874	18,611,781
Total assets	<u>23,371,063</u>	<u>24,639,235</u>
Current liabilities	5,416,004	6,949,122
Noncurrent liabilities	8,715,271	5,165,937
Total liabilities	<u>14,131,275</u>	<u>12,115,059</u>
Invested in capital assets, net of related debt	15,090,874	12,115,058
Restricted	4,692,125	3,983,740
Unrestricted	(10,543,211)	(3,574,622)
Total net assets	<u>\$ 9,239,788</u>	<u>\$ 12,524,176</u>

Changes in Net Assets

The Municipality's net assets decreased by \$3,284,388. Approximately 74 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 20 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Municipality of Camuy
Condensed Statement of Activities
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Program revenues		
Charges for services	\$ 41,324	\$ 36,190
Licenses and Permits	184,862	255,119
Operating grants and contributions	1,809,162	1,826,291
Capital grants and contributions	-	470,288
General revenues		
Property taxes	2,001,451	1,982,707
Municipal license tax	495,846	502,804
Grants and contributions not restricted to specific programs	7,522,281	6,754,101
Interest, fines and penalties	23,392	4,579
Miscellaneous	541,560	379,484
	<u>12,619,878</u>	<u>12,211,563</u>
 Expenses		
General government	8,770,934	4,651,986
Public safety	609,705	622,129
Culture	654,336	647,232
Health and sanitation	1,632,064	1,603,564
Public housing and welfare	2,769,020	1,760,033
Urban and economic development	1,151,688	2,240,922
Interest on long-term debt	316,519	181,324
	<u>15,904,266</u>	<u>11,707,190</u>
 Change in net assets	(3,284,388)	504,373
 Net assets, beginning of year	<u>12,524,176</u>	<u>12,019,803</u>
 Net assets, end of year	<u>\$ 9,239,788</u>	<u>\$ 12,524,176</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

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 the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$1,427,166, an increase of \$833,487 in comparison with the prior year. There are reservations of fund balance amounting to \$523,370. This is the fund balance that is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$195,372) and 2) to pay debt service (\$328,098).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2005, the general fund has a deficiency of \$3,159,790. The deficiency increased by \$90,850 during fiscal year 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2005, amounts to \$31.9 million, net of accumulated depreciation of \$13.6 million, leaving a net book value of \$18.3 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 1% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$0.4 million for the year. Depreciation charges for the year totaled \$0.9 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the second floor of the Town Hall, Camuy, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Note 2)	\$ 1,490,512
Cash with fiscal agent (Note 2)	1,974,442
Accounts receivable:	
Property taxes	462,835
Due from federal financial assistance	212,494
Due from other agencies (Note 8)	905,906
Capital assets, net (Note 10)	<u>18,324,874</u>
 Total assets	 <u>\$ 23,371,063</u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 384,572
Due to other agencies (Note 11)	3,158,357
Deferred revenues (Note 12):	
Municipal license tax	396,694
Federal government	811,832
General obligations:	
Bonds	240,000
Interest	68,759
Claims and judgements	209,180
Accrued interest	146,610
Noncurrent liabilities: (Note 14)	
Due within one year	999,087
Due in more than one year	7,716,184
Total liabilities	<u>14,131,275</u>
Net Assets	
Investment in capital assets, net of related debt	15,090,874
Restricted for:	
Debt service	328,098
Capital projects	4,148,840
Unrestricted	(10,328,024)
Total net assets	<u>9,239,788</u>
 Total liabilities and net assets	 <u>\$ 23,371,063</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u> <u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
General government	\$ 8,770,934	\$ 226,186	\$ -	\$ (8,544,748)
Public safety	609,705		25,736	(583,969)
Public housing and welfare	2,769,020		1,697,949	(1,071,071)
Culture and education	654,336		85,477	(568,859)
Health and sanitation	1,632,064			(1,632,064)
Economic development	1,151,688			(1,151,688)
Interest on long-term debt	316,519			(316,519)
Total primary government	\$ 15,904,266	\$ 226,186	\$ 1,809,162	\$ (13,868,918)
General revenues:				
Property taxes				2,001,451
Municipal license tax				495,846
Grants and contributions not restricted to specific programs				7,522,281
Interest and investment earnings				23,392
Miscellaneous				541,560
Total general revenues				10,584,530
Change in net assets				(3,284,388)
Net assets at beginning of year				12,524,176
Net assets at end of year				\$ 9,239,788

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2005

<u>Assets</u>	<u>General</u>	<u>Joint Resolution Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 426,766	\$ 558,617	\$ 505,129	\$ 1,490,512
Cash with fiscal agent (Notes 2 and 5)	895,420		1,079,022	1,974,442
Certificates of deposits				
Accounts receivable:				
Property taxes			462,835	462,835
Due from federal financial assistance			212,494	212,494
Due from agencies (Note 8)	904,774		1,132	905,906
Due from other funds (Note 9)	387,011	3,193,988	95,154	3,676,153
 Total assets	 <u>\$ 2,613,971</u>	 <u>\$ 3,752,605</u>	 <u>\$ 2,355,766</u>	 <u>\$ 8,722,342</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2005**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Joint Resolution Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 192,269	\$ 3,209	\$ 10,604	\$ 206,082
Due to other agencies (Note 11)	1,895,656			1,895,656
Due to other funds (Note 9)	3,289,142		387,011	3,676,153
General obligations:				
Bonds			240,000	240,000
Interest			68,759	68,759
Deferred revenues (Note 12):				
Municipal license tax	396,694			396,694
Federal government			811,832	811,832
Total liabilities	<u>5,773,761</u>	<u>3,209</u>	<u>1,518,206</u>	<u>7,295,176</u>
Fund Balances				
Reserved for:				
Encumbrances	195,272			195,272
Debt service			328,098	328,098
Capital project		3,749,396	399,444	4,148,840
Unreserved fund balance	(3,355,062)		110,018	(3,245,044)
Total fund balance	<u>(3,159,790)</u>	<u>3,749,396</u>	<u>837,560</u>	<u>1,427,166</u>
Total liabilities and fund balance	<u>\$ 2,613,971</u>	<u>\$ 3,752,605</u>	<u>\$ 2,355,766</u>	<u>\$ 8,722,342</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2005**

Total fund balances - governmental funds	\$ 1,427,166
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	18,324,874
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	<u>(10,512,252)</u>
Net assets of governmental activities	<u>\$ 9,239,788</u>

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Joint Resolution Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes (Note 6)	\$ 2,001,451	\$ -	\$ -	\$ 2,001,451
Municipal license taxes (Note 7)	495,846			495,846
Licenses and permits	184,862			184,862
Charges for service and rents	27,132		14,192	41,324
Intergovernmental revenues (Note 13):				
Federal grants and contributions			1,809,162	1,809,162
State contributions	5,194,797	1,170,013	1,157,471	7,522,281
Interest, fines, and penalties	15,380	44	7,968	23,392
Other revenues	535,354		6,206	541,560
Total revenues	<u>8,454,822</u>	<u>1,170,057</u>	<u>2,994,999</u>	<u>12,619,878</u>
EXPENDITURES				
General government	5,073,709		193,162	5,266,871
Public safety	554,146		25,736	579,882
Public housing and welfare	945,482	108,037	1,697,949	2,751,468
Culture and education	453,434		78,689	532,123
Health and sanitation	1,579,893			1,579,893
Economic development	564,716			564,716
Capital outlays	63,995	339,989	174,140	578,124
Debt service:				
Principal retirement			585,481	585,481
Interest and other			243,253	243,253
Total expenditures	<u>9,235,375</u>	<u>448,026</u>	<u>2,998,410</u>	<u>12,681,811</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(780,553)</u>	<u>722,031</u>	<u>(3,411)</u>	<u>(61,933)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	2,950,000			2,950,000
Debt paid with loan proceeds	(2,054,580)			
Transfers in	7,632		423,222	430,854
Transfers out	(213,349)	(209,873)	(7,632)	(430,854)
Total other financing sources (uses)	<u>689,703</u>	<u>(209,873)</u>	<u>415,590</u>	<u>2,950,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(90,850)</u>	<u>512,158</u>	<u>412,179</u>	<u>833,487</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR AS RESTATED (Note 20)				
	<u>(3,068,940)</u>	<u>3,237,238</u>	<u>425,381</u>	<u>593,679</u>
FUND BALANCE (DEFICIT) AT END OF YEAR				
	<u>\$ 1,159,790</u>	<u>\$ 3,749,396</u>	<u>\$ 837,560</u>	<u>\$ 1,427,166</u>

[Handwritten signature and date: 07/03/2006]

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds \$ 833,487

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 578,124
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (865,031)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (2,950,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 585,481
- Change in accrued interest expense which does not require the use of current financial resources. (73,266)
- Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities. (1,393,183)

Changes in net assets of governmental activities \$ (3,284,388)

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. ORGANIZATION

The Municipality of Camuy, Puerto Rico (Municipality) was founded in 1807. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - The reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Program Activities - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

government's functions. The expense of individual functions is compared to the revenues generated directly by the function.

- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoint a voting majority of the entity's governing body, and if either one of the following conditions exists: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has not component units.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

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

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under an accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be

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susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Joint Resolution Fund

This fund is used to account for financial resources derived from capital and operating grants awarded each year by the Commonwealth's Senate and house of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to (1) partially subsidy certain qualifying administrative and operational activities of the Municipality, (2) provide specific multipurpose services to citizens and (3) finance the acquisition or construction of capital assets approved by the Commonwealth's Legislature.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

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d. Cash and Cash with Fiscal Agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Infrastructure	20-50 years
Land improvements	20 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

1) 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.

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2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

h. Risk Financing

The Municipality carries 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 (the "CRIM") for the year ended June 30, 2005 amounted to approximately \$235,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$200,195 for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the

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contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

k. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
43	Financial Reporting for Post-employment Benefit Other than Pension Plans	2005-06
44	Economic Condition Reporting: The Statistical Section - an amendment on NCGA Statement I	2005-06
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2008-09
46	Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34.	2005-06

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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.

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The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general fund. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

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.

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 is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2005 representing the original budget.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current

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period and therefore are not reported in the funds. The details of the approximately \$10.5 million difference are as follows:

Municipality of Moca	\$ 212,225
Municipality of Arecibo	275,000
Treasury Department	270,811
Christmas Bonus	178,490
Bonds payable	6,184,000
CRIM	348,680
Compensated absences	1,181,284
Note payable	1,001,307
Accrued interest	146,610
CRIM (Preliminary Liquidation 2004-05)	504,665
Claims and judgements	<u>209,180</u>

Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$10,512,252</u>
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5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$1,353,424 that are restricted principally for capital projects and general fund, and the \$621,018 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in a bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

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6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.18% for real property and 6.18% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.35%	1.35%
Discounts made by state to tax payer	<u>< .20% ></u>	<u>< .20% ></u>
	<u>8.18%</u>	<u>6.18%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. 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. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$1,040,000. This amount will be repaid through advances from property taxes (refer to Note 14).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2004-05, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2005, the amount received in advances from CRIM exceeded the amount collected from taxpayers and charges by CRIM for the same period by \$504,665. Such amount is presented as intergovernmental payable in the statement of net assets (refer to Note 11).

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2005. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Camuy, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

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An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Camuy, are as follows:

Savings and loans associations	= 1.50%
Financing institution	= 1.50%
Other organizations:	
Up to \$300,000	= .30%
From \$300,001 to \$1,000,000	= .35%
Over \$1,000,001	= .40%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$396,694, corresponding to the next fiscal year municipal license.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center	\$ 1,132
Puerto Rico Electric Power Authority	<u>904,774</u>
	<u>\$905,906</u>

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2005, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental funds	\$ 387,011
Other Governmental Funds	General	95,154
Joint Resolution	General	<u>3,193,988</u>
		<u>\$3,676,153</u>

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b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2005 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$213,349
General Fund	Debt Service	7,632
Debt Service	Joint Resolution	<u>209,873</u>
		<u>\$430,854</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

10. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2005 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,347,061	\$ 44,000		\$ 3,391,061
Construction in progress	1,770,021	359,426		2,129,447
Total capital assets, not being depreciated	<u>5,117,082</u>	<u>403,426</u>	<u>-</u>	<u>5,520,508</u>
Capital assets, being depreciated:				
Buildings and building improvements	7,893,543			7,893,543
Furniture and fixture	1,110,756	12,586		1,123,342
Land improvements	2,123,276			2,123,276
Vehicles and equipment	1,839,726	162,112		2,001,838
Infrastructure	13,286,415			13,286,415
Total capital assets, being depreciated	<u>26,253,716</u>	<u>174,698</u>	<u>-</u>	<u>26,428,414</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,927,931	138,378		2,066,309
Furniture and fixture	769,552	36,618		806,170
Land improvements	1,170,174	75,869		1,246,043
Vehicles and equipment	1,160,549	124,450		1,284,999
Infrastructure	7,730,811	489,716		8,220,527
Total accumulated depreciation	<u>12,759,017</u>	<u>865,031</u>	<u>-</u>	<u>13,624,048</u>
Total capital assets, being depreciated, net	<u>13,494,699</u>	<u>(690,333)</u>	<u>-</u>	<u>12,804,366</u>
Governmental activities capital assets, net	<u>\$ 18,611,781</u>	<u>\$ (286,907)</u>	<u>\$ -</u>	<u>\$ 18,324,874</u>

Distribution of depreciation expense by function.

General government	\$ 56,300
Public safety	29,823
Public housing and welfare	17,552
Culture and education	122,213
Health and sanitation	52,171
Urban development	<u>586,972</u>
	<u>\$865,031</u>

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11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2005 are as follows:

Municipality of Moca	\$ 212,226
Municipality of Arecibo	275,000
General Services Administration	81,092
Puerto Rico Electric Power Authority	900,249
Retirement System Administration	107,327
Puerto Rico Treasury Department	270,811
Puerto Rico Labor Department	54,842
Municipal Revenues Collection Center	504,665
Internal Revenue Services	<u>752,146</u>
 Total	 <u>\$3,158,357</u>

12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$396,694 in the general fund related to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant.

13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

14. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2005 are as follows:

General Obligations

1996 serial notes, original amount of \$125,000, due in annual principal installments ranging from \$5,000 to \$10,000 plus interests, due in semiannual installments at variable rates not to exceed 6.58% through July 1, 2015.	\$ 85,000
1997 serial bonds, original amount of \$305,000, due in annual principal installments ranging from \$25,000 to \$45,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2006.	85,000
2001 serial notes, original amount of \$1,675,000, due in annual principal installments ranging from \$25,000 to \$145,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2026.	1,600,000
2001 serial notes, original amount of \$445,000, due in annual principal installments ranging from \$45,000 to \$80,000 plus interests, due in semiannual installments at variable rates not to exceed 3.88% through July 1, 2008.	290,000
2005 serial notes, original amount of \$2,950,000, due in annual principal installments ranging from \$60,000 to \$205,000 plus interests, due in semiannual installments at variable rates of 5% through July 1, 2029.	2,950,000

Special Obligations

1999 serial bonds, original issue amount of \$505,000, due in annual principal installments ranging from \$35,000 to \$65,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% (5% at June 30, 2004) through July 1, 2008.	245,000
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Public Improvement Bonds

1995 serial bonds, original amount of \$350,000, due in annual principal installments ranging from \$10,000 to \$40,000 plus interests, due in annual installments at rates not to exceed 6.20% (5.80% at June 30, 2004) through January 1, 2009. \$ 165,000

1998 serial bonds, original amount of \$280,000, due in annual principal installments ranging from \$7,000 to \$21,000 plus interests, due in annual installments at rates of 5.25% through January 1, 2019. 217,000

1998 serial bonds, original amount of \$310,000, due in annual principal installments ranging from \$7,000 to \$23,000 plus interests, due in annual installments at rates of 5.12% through January 1, 2020. 247,000

Special Fund - Emergency Obligations

1995 serial bonds, original amount of \$400,000, due in annual principal installments ranging from \$10,000 to \$40,000 plus interests, due in semiannual installments at variable rates not to exceed 8% (5% at June 30, 2004) through July 1, 2016. 300,000

Total bonds payable \$6,184,000

Note Payable to CRIM

Act No. 42 - Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

In addition, on December 16, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$1,040,424 of excess of property tax advances from fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to CDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB but not exceeding 8.00%. The outstanding principal and accrued interest balances of the note payable to CRIM amounted \$1,001,307 and \$1,050,938, respectively, at June 30, 2005.

	<i>Bonds</i>		<i>Note Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 300,000	\$ 84,645	\$ 14,745	\$ 61,965
2007	347,000	307,958	15,690	61,019
2008	324,000	302,982	16,696	60,013
2009	334,000	286,017	17,767	58,943
2010	206,000	268,220	18,906	57,804
2011-2015	182,000	256,731	114,339	269,208
2016-2020	1,073,000	1,123,146	156,006	227,544
2021-2025	1,198,000	809,876	212,848	170,700
2026-2030	1,325,000	469,075	290,413	74,219
2031-2035	895,000	165,425	143,897	9,523
	<u>\$6,184,000</u>	<u>\$4,074,075</u>	<u>\$1,001,307</u>	<u>\$1,050,938</u>

Financing of Delinquent Property Tax Accounts Sold

On April 22, 2004, the Municipality entered into a financing agreement with CRIM in the amount of \$251,724 for the payment of delinquent property tax account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.50% during the first 5 years, and variable interests 125 points over LIBOR rate during the next 25 years. At June 30, 2005, the outstanding principal and accrued interest balances amounted to \$348,680 and \$402,927, respectively. The principal and interest maturities are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 22,664	\$ 22,664
2007	-	22,664	22,664
2008	5,757	22,494	28,251
2009	6,142	22,109	28,251
2010	6,553	21,697	28,250
2011-2015	39,969	101,283	141,252
2016-2020	55,271	85,982	141,253
2021-2032	234,988	104,034	339,022
Total	<u>\$ 348,680</u>	<u>\$ 402,927</u>	<u>\$ 751,607</u>

Compensated Absences

At June 30, 2005, the liability for compensated absences is composed as follows:

	<u>Due within One Year</u>	<u>Due After One Year</u>	<u>Total</u>
Vacations	\$ 370,377	\$ 90,448	\$ 460,825
Sick leave	313,965	406,494	720,459
Total	<u>\$ 684,342</u>	<u>\$ 496,942</u>	<u>\$ 1,181,284</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Long-term liability activity for the year ended June 30, 2005 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 3,487,000	\$ 2,950,000	\$ 253,000	\$ 6,184,000	\$ 300,000
Notes payable	1,016,701		15,394	1,001,307	14,745
Total long-term debt	<u>4,503,701</u>	<u>2,950,000</u>	<u>268,394</u>	<u>7,185,307</u>	<u>314,745</u>
Other Long-term Liabilities:					
P. R. Department of Labor	20,714		20,714	-	
P. R. Aqueduct and Sewer Authority	86,500		86,500	-	
Claims and judgments	209,873		209,873	-	
CRIM-LIMS	348,680			348,680	
Compensated absences	1,334,482		153,198	1,181,284	684,342
Total other liabilities, governmental activities	<u>2,000,249</u>	<u>-</u>	<u>470,285</u>	<u>1,529,964</u>	<u>684,342</u>
Total noncurrent liabilities, governmental activities	<u>\$ 6,503,950</u>	<u>\$ 2,950,000</u>	<u>\$ 738,679</u>	<u>\$ 8,715,271</u>	<u>\$ 999,087</u>

15. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System 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 instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2005 was approximately \$254,000. The Municipality's payroll for employees covered by ERS was approximately \$2.7 million. The Municipality total payroll for all employees was approximately \$4.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2005, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

16. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

17. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2005 was approximately \$27,132.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

18. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that it is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

19. COMMITMENTS

The Municipality of Camuy had several outstanding or planned construction projects as of June 30, 2005. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$288,244.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

20. FUND BALANCES RESTATEMENTS

The beginning funds balances of the general fund and the joint resolution fund has been restated to correct an overstatement of the due to other funds and due from other funds, respectively, in the amounts of \$215,187. The following schedule reconciles the fund balance at July 1, 2004 as previously reported to the beginning fund balance, as restated:

<u>Fund</u>	<u>Prior Period Adjustments</u>		<u>Balance at Beginning of Year as Restated</u>
	<u>Balance at Beginning of Year as Previously Reported</u>	<u>Correction of Errors</u>	
General Fund	\$ (3,284,127)	\$ 215,187	\$ (3,068,940)
Joint Resolution Fund	3,452,425	(215,187)	3,237,238
Total	<u>\$ 168,298</u>	<u>\$ -</u>	<u>\$ 168,298</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
STATEMENT OF REVENUES, EXPENDITURES, BUDGET, AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,883,134	\$ 1,883,134	\$ 2,001,451	\$ 118,317
Municipal license taxes	501,500	501,500	495,846	(5,654)
Licenses and permits	502,450	502,450	184,862	(317,588)
Charges for service and rents	26,800	26,800	27,132	332
Intergovernmental:				-
State contributions	4,713,538	4,713,538	5,194,797	481,259
Interest, fines, and penalties	30,000	30,000	23,012	(6,988)
Other	935,000	935,000	157,518	(777,482)
Total revenues	<u>8,592,422</u>	<u>8,592,422</u>	<u>8,084,618</u>	<u>(507,804)</u>
EXPENDITURES				
General government	4,077,997	4,148,834	4,600,607	(451,773)
Public safety	617,156	557,044	554,146	2,898
Public housing and welfare	1,183,014	983,717	945,482	38,235
Culture and education	485,239	481,012	453,434	27,578
Health and sanitation	1,642,512	1,835,264	1,579,893	255,371
Economic development	586,504	586,551	564,716	21,835
Total expenditures	<u>8,592,422</u>	<u>8,592,422</u>	<u>8,698,278</u>	<u>(105,856)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (613,660)</u>	<u>\$ (613,660)</u>

Explanation of Differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 8,454,822
Differences - budget basis to GAAP:	
Non budgetary revenues	(377,836)
Non budgetary transfer in	7,632
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 8,084,618</u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 11,289,955
Differences - budget basis to GAAP:	
Non budgeted expenditure	(918,767)
Non budgeted transfer out	213,349
Non budgeted expenditures	(2,054,580)
Prior year encumbrances recorded as current year expenditures for GAAP basis	(26,951)
Current year encumbrances recorded as expenditure for budgetary basis	195,272
	<u>\$ 8,698,278</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor Pass/Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U. S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Housing Choice Voucher	14.871	\$ 865,693
Indirect Program:		
Pass-through Puerto Rico Office of Municipal Affairs State Block Grant Program (SBGP)	14.228	<u>626,372</u>
Subtotal HUD		<u>1,492,065</u>
U. S. Department of Health and Human Services (HHS)		
Passed through Administration of Families and Children - Child Care and Development Block Grant	93.575	277,084
Subtotal HHS		<u>277,084</u>
U. S. Department of Transportation		
Passed through PR Highway Authority Federal Transit Capital Improvements Grants	20.500	<u>18,991</u>
Subtotal Department of Transportation		<u>18,991</u>
U.S. Department of Agriculture		
Pass-through Education Department: Child and Adult Care Food Programs	10.558	12,885
Subtotal U.S. Department of Agriculture		<u>12,885</u>
TOTAL		<u>\$1,801,025</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Camuy, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

NOTE 2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund.

NOTE 3. FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Camuy
Camuy, Puerto Rico

We have audited the financial statements of the Municipality of Camuy as of and for the year ended June 30, 2005, and have issued our report thereon dated December 23, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Camuy financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing and opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs Section II.

Internal Control Over Financial Reporting

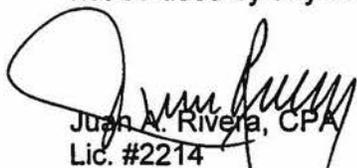
In planning and performing our audit, we considered the Municipality of Camuy internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect

the Municipality of Camuy ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions in federal award are described in the accompanying schedule of findings and questioned costs Section II and also we have reported to the management of Municipality of Camuy those reportable condition that affect the internal control of the Municipality operations in a separate letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities and not is intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214

December 23, 2005
Toa Baja, Puerto Rico



Stamp NO.2105592 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.


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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN A ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
the Municipal Assembly
Municipality of Camuy
Camuy, Puerto Rico

Compliance

We have audited the compliance of Municipality of Camuy with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The Municipality of Camuy major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Camuy management. Our responsibility is to express an opinion on the Municipality of Camuy compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those Standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Camuy compliance with those requirements and performing such others procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not include a legal determination of the Municipality of Camuy compliance with those requirements.

As described in item Section II in the accompanying schedule of findings and questioned costs, the Municipality of Camuy did not comply with requirements regarding administrative requirements that are applicable to its Section 8 Program and SBGP Program. Compliance with such requirements are necessary for the Municipality of Camuy to comply with the federal regulations.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Camuy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

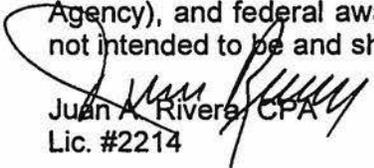
Internal Control Over Compliance

The management of the Municipality of Camuy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Camuy internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality of Camuy ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs in Section II.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we believe that none of the reportable conditions described above is a material weakness. This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is not intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214

December 23, 2005
Toa Baja, Puerto Rico



Stamp NO.2105593 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Summary of Auditor's Result

Financial Statements

Type of auditor's report issued: unqualified opinion

Internal Control over financial reporting:

Material weakness (es) identified? Yes No

Reportable condition (s) identified that are not
considered to be material weakness? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:

Material weakness (es) identified? Yes No

Reportable condition (s) identified that are not
Considered to be material weakness? Yes No

Type of auditor's report issued on compliance for
major programs: qualified

Any audit findings disclosed that are required to be
reported in accordance with section 510 (a) of
Circular A-133? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Vouchers
14.228	SBGP

Dollar threshold used to distinguish between type A and type B programs: \$500,000

Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section II: Federal Awards Findings and Questioned Costs

During the examination of compliance with federal requirements of the Municipality of Camuy, for the year ended June 30, 2005 disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

**Section 8
CFDA No. 14.855**

Condition 05-1

We observed that 76 % of our sample of participants was selected from the waiting list. The Municipality should improve this procedures in order to comply with at least of 98%.

Criteria

Code of Federal Regulations requires (24 CFR 982.54 (d)(1) and 982.204(a)) the applicants and admissions should be selected from the waiting list.

Cause

Some participants were not selected from the waiting list.

Effect

The Municipality is not in compliance with federal regulations and not given the same opportunity to all participants.

Recommendation

The Municipality should continue with the procedures of selecting from waiting list in order to give the same opportunity to all participants and to comply with federal regulations.

Condition 05-2

The Municipality should implement the reasonable written method established in the administrative plan to determine and document for each unit leased that the rent to owner is reasonable based on current rents for comparable unassisted units.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Condition 05-2 (Cont.)

Criteria

Code of Federal Regulations (24 CFR 982.4, 982.54(d)(15), 982.158(f)(7) and 982.507) requires the Municipality determine and documented for each unit leased that the rent to owner is reasonable based on current rents for comparable unassisted units; at the time of initial leasing; if there any increase in the rent to owner; and at the HAP contract anniversary if there is a 5 % decrease in the published fair market rent (FMR) in effect 60 days before the HAP anniversary. This method must take in consideration the location, size, type, quality and the age of units, and the amenities, housing services, and maintenance and utilities provided by the owners in determining comparability and the reasonable rent.

Cause

The Municipality does not implement the reasonable rent procedures complete.

Effect

The Municipality is not in compliance with federal regulations, and cannot obtain an assurance the rent paid is reasonable.

Recommendation

The Municipality should implement as soon as possible the complete reasonable method written in the administrative plan in order to comply with federal regulations.

**SBGP
CFDA No. 14.228**

Condition 05-3

The federal program office does not maintain a physical inventory of the equipment acquired by federal funds.

Criteria

Based on the A-102 Common rule and OMB circular A-110, equipment records shall be maintained; a physical inventory of equipment shall be taken at least once every two years and reconcile to the equipment records when federal program acquired equipment in excess of \$5,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Condition 05-3 (Cont.)

Cause

The Municipality does not maintain a physical inventory.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation

The Municipality should implement a physical inventory and maintained into the federal program offices in order to comply with federal regulations.

Condition 05-4

The SBGP program should to minimize the time elapsing between transfer the federal funds from agency (OCAM) and disbursement to suppliers.

Criteria

As required by Code of federal regulation (30 CFR part 205) OCAM, the Pass-through entity, established procedures to comply with requirements for cash management. OCAM establish the federal funds should be used into three to five labor days in order to maintain less than \$5,000 on the bank account.

Cause

The Municipality does not make the disbursement into the three to five labor days required.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation

The Municipality should establish procedures in conjunction with finance department in order to make the disbursement into the time required.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 03-1 The actual administrative plan must be revised and updated.	Condition corrected
Section 8 CFDA No. 14.855	Condition 03-2 The Municipality should modify their procedures of reasonable rent.	Condition corrected
Section 8 CFDA No. 14.855	Condition 03-4 HQS procedures must be implemented.	Condition corrected
Section 8 CFDA No. 14.855	Condition 02-1 The actual administrative plan must be revised and updated.	Condition corrected
Section 8 CFDA No. 14.855	Condition 02-3 The Municipality has not written procedures for reasonable rent.	Condition corrected
Section 8 CFDA No. 14.855	Condition 02-6 They're no procedures of HQS deficiencies.	Condition corrected
Section 8 CFDA No. 14.855	Condition 04-1 The waiting list deficiencies.	Still Prevail
Section 8 CFDA No. 14.855	Condition 04-2 No administrative plan.	Still Prevail
Section 8 CFDA No. 14.855	Condition 04-3 Housing quality standards (HQS) not implemented.	Condition corrected
Section 8 CFDA No. 14.855	Condition 04-4 Not complied with Davis-Bacon Act.	Condition corrected
Section 8 CFDA No. 14.855	Condition 04-5 The federal program office does not maintain a physical inventory of the equipment acquired..	Still Prevail
Section 8 CFDA No. 14.855	Condition 04-6 The SBGP do not minimize the time elapsing.	Still Prevail

**MUNICIPALITY OF CAMUY
FEDERAL PROGRAMS OFFICE
SBGP PROGRAM**

**CORRECTIVE ACTION PLAN for INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2005**

Finding Number	Auditor's Description	Auditor's Recommendation	PHA Corrective Action	PHA Lead Person(s) Accountable For Action Item Completion	Deliverable	Evidence Included Yes/No	Target Completion Date
05-3	The Federal Programs Office does not maintain a physical inventory of the equipment acquired by federal funds. Based on the A-102 Common rule and OMB circular A-10, equipment records shall be maintained; a physical inventory of equipment shall be taken at least once every two years and reconcile to the equipment records when federal program acquired equipment in excess of \$5,000.00	The Municipality should implement a physical inventory and maintained into the Federal Programs Office in order to comply with federal regulations.	The Federal Programs Office will implement a physical inventory and maintained into the Federal Programs Office for the review of the next Auditor's Report.	Luis Ramos Accountant Eliezer Pérez Director	Short time	No	June 30, 2006
05-4	The SBGP Program should to minimize the time elapsing between transfer the federal funds from agency (OCAM) and disbursement to suppliers. As required by Code of Federal Regulation (30 CFR, part 205) OCAM, the Pass-through entity, established procedures to comply with requirements for cash management. OCAM establish the federal funds should be used into three to five labor days in order to maintain less than \$5,000.00 on the bank account.	The Municipality should establish procedures in conjunction with finance department in order to make the disbursement into the time required.	The Municipality will establish procedures in order to make the disbursement into the time required.	Norberto Acevedo Finance Director Luis Ramos Eliezer Pérez	Immediately	No	June 6, 2006 2007

Eliezer Pérez Volcager
Alcalde Interino



June 8, 2006