

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CAMUY
AUDITORIA 2005-2006

30 DE JUNIO DE 2006

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DIVISION REGLAMENTACION
E INTERVENCION

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2006**

**COMMONWEALTH OF PUERTO RICO
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
ENDED JUNE 30, 2006**

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*Member of:
The American Institute of Certified Public
Accountants (AICPA)
Puerto Rico Board of Certified Public
Accountants*

Gil Alberto Ortiz Cabrera

Certified Public Accountant & Professional Consultant

Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the Municipality of Camuy of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2006, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, based on my audit, 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 Municipality of Camuy of the Commonwealth of Puerto Rico, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in United States of America.

In accordance with Government Audit Standards, I have also issued my report dated December 14, 2006 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. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report and should be considered in assessing the results of my audit.

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My audit was 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 Government, 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 my 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. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Gil Alberto Ortiz Cabrera

CPA Gil Alberto Ortiz Cabrera

License 1332

Dorado, Puerto Rico

December 14, 2006

The stamp number 2136015
was affixed to the original
of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

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, 2006. I encourage readers to consider the information presented here in conjunction with the additional information that I 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 increased by \$2,795,515.**
- **In the fund financial statements, general fund balances increased by \$52,380.**
- **Long term debt increased by \$1,085,611.**

GOVERNMENT-WIDE-FINANCIAL STATEMENTS

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, 2006 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, 2006. 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

GOVERNMENT-WIDE-FINANCIAL STATEMENTS (Continued)

direct expenses and program revenues for each function of the Municipality.

Both of the above mentioned 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 spend able resources, as well as on balances of spend able 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

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 \$11,950,509 at June 30, 2006.

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 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:

**Condensed Statement of Net Assets
June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 6,668,537	\$ 5,046,189
Non-current assets:		
Capital assets, net	19,974,061	18,324,874
Total assets	<u>26,642,598</u>	<u>23,371,063</u>
Liabilities:		
Current liabilities	4,890,049	5,416,004
Non-current liabilities - long-term liabilities due after one year	9,802,040	8,715,271
Total liabilities	<u>14,692,089</u>	<u>14,131,275</u>
Net assets (liabilities):		
Invested in capital assets, net of related debt	16,382,060	15,090,874
Restricted	6,132,423	4,692,125
Unrestricted	<u>(10,563,974)</u>	<u>(10,543,211)</u>
Total net assets	<u>\$ 11,950,509</u>	<u>\$9,239,788</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

**Condensed Statement of Activities
Year Ended June 30, 2006 and 2005**

Program revenues	<u>2006</u>	<u>2005</u>
Charge for services	\$ -	\$ 41,324
Licenses and Permit	6,887,936	184,862
Operating frants and contributions		1,809,162
General revenues:		
Property taxes	2,583,385	2,001,451
Municipal license taxes	566,843	495,846
Grants and contributions not		
Restricted to specific programs	4,309,855	7,522,281
Interest, fines and penalties	92,017	23,392
Miscellaneous	<u>91,761</u>	<u>541,560</u>
Total revenues	<u>14,531,797</u>	<u>12,619,878</u>
Expenses:		
General government	7,938,190	8,770,934
Public safety	34,557	609,705
Culture, recreation and education	239,531	654,336
Health and sanitation	823,311	1,632,064
Public housing and welfare	1,348,596	2,769,020
Urban and economic development	1,013,004	1,151,688
Interest on long-term obligations	<u>339,093</u>	<u>316,519</u>
Total expenses	<u>11,736,282</u>	<u>15,904,266</u>
Change in net assets	2,795,515	(3,284,388)
Net assets - at beginning of year		
as previously reported	9,239,788	12,524,176
Adjustment	<u>(84,794)</u>	
Net assets beginning of year		
as restated	<u>9,154,994</u>	<u>12,524,176</u>
Net assets - at end of year	<u>\$ 11,950,509</u>	<u>\$ 9,239,788</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30,2006

CHANGES IN NET ASSETS

The Municipality's net assets increased by \$2,675,515. Approximately 77 percent of the municipality total revenue came from grants and contributions, including federal aid, while 23 percent resulted from taxes. The municipality's expenses cover a range of service. The largest expenses for were for general government and public works. In future years, when prior-years information is available, a comparative analysis of government-wide data will be presented.

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 spend able 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 \$2,311,587 an increase of \$884,423 in comparison with the prior year.

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2006, the general fund had an excess of revenues and other financial resources over expenditures and other financing uses of \$52,380.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2006, amounts to \$34,980,147 million, net of accumulated depreciation of \$14,558,086 million, leaving a net book value of \$20,422,061. This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30,2006

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report is intended to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Camuy, Department of Finance, P.O. 1544, Camuy, Puerto Rico, 00539.

Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Net Assets
June 30, 2006
Assets

	Governmental Activities
Current assets:	
Cash	\$ 167,723
Accounts receivable, net of allowance for doubtful accounts	
Property taxes	195,637
Municipal license taxes	63,858
Intergovernmental	1,427,650
Federal Financial Assistance	289,602
Restricted assets:	
Cash with commercial bank	895,751
Cash with fiscal agent	3,180,317
Total current assets	<u>6,220,538</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation and amortization of \$14,558,086	20,422,060
Total non-current assets	<u>20,422,060</u>
Total assets	<u>26,642,598</u>
Current liabilities (due within one year):	
Accounts payable	687,101
Accrued liabilities	175,200
Intergovernmental payables	2,153,471
Deferred revenues	1,009,429
Accrued Interest	146,610
Matured bonds	596,302
Current portion of long-term obligations:	
Bonds payable	420,000
Notes Payables	14,745
Compensated absences	577,436
Claims and judgments	110,000
Total current liabilities	<u>5,890,294</u>
Noncurrent liabilities (due in more than one year):	
Bonds payables	6,690,000
Notes payables	1,320,497
Compensated absences	791,298
Total noncurrent liabilities	<u>8,801,795</u>
Total liabilities	<u>14,692,089</u>
Net assets (liabilities):	
Invested in capital assets, net of related debt	16,382,060
Restricted for:	
Debt service	\$ 306,164
Other specified purposes	5,826,259
Total restricted net assets	<u>6,132,423</u>
Unrestricted net assets	(11,011,974)
Total net assets	<u>11,950,509</u>
Total liabilities and net assets	<u>\$ 26,642,598</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Activities
June 30, 2006

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Expenses and Charges in Net Assets</u>
		<u>Charge for Services</u>	<u>Operating grants and contributions</u>	
Governmental activities				
General government	\$ 7,938,190			\$ (7,938,190)
Public safety	34,557			(34,557)
Public housing and welfare	1,348,596		1,754,908	406,312
Culture, recreation and education	239,531			(239,531)
Health and sanitation	823,311			(823,311)
Economic development	1,013,004		2,554,947	1,541,943
Interest on long-term obligation	339,093			(339,093)
Total governmental activities	<u>\$ 11,736,282</u>	<u>-</u>	<u>4,309,855</u>	<u>(7,426,427)</u>
General Revenues:				
Taxes:				
Property taxes				2,583,385
Municipal license taxes				566,843
Grants and contributions, not restricted to specific programs				6,887,936
Interest and investment earnings				92,017
Miscellaneous				91,761
Total general revenues				<u>10,221,942</u>
		Change in net assets		<u>2,795,515</u>
		Net assets at beginning of the year		<u>9,239,788</u>
		Prior year adjustment		<u>(84,794)</u>
		Adjusted beginning net assets		<u>9,154,994</u>
		Net assets at the end of the year		<u>\$ 11,950,509</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Camuy
Balance Sheet - Governmental Funds
June 30, 2006

	Major Funds			Total Governmental Funds
	General Fund	Joint Resolutions	Other Governmental Funds	
Assets				
Cash	\$ 167,723	\$ 237,599	\$ 658,152	\$ 1,063,474
Cash with Fiscal Agent			-	-
Receivables, net of allowance for uncollectible accounts:				-
Taxes:				-
Property taxes	97,911	-	97,726	195,637
Licenses and Permits	-			-
Municipal Volume of Business	63,858	-	-	63,858
Due from other funds	531,058	2,544,969	66,671	3,142,698
Due from governmental entities	1,104,225	-	242,049	1,346,274
Federal Financial Assistance	-	-	289,602	289,602
Other		-	-	-
Restricted assets:				
Cash with commercial banks				
Cash with fiscal agent		1,500,000	1,680,317	3,180,317
Property taxes receivable, net of allowance for uncollectible accounts				
Total assets	<u>1,964,775</u>	<u>4,282,568</u>	<u>3,034,517</u>	<u>9,281,860</u>
Liabilities				
Accounts payable	367,512	141,940	177,649	687,101
Due to other funds	2,611,639		531,058	3,142,697
Due to governmental entities	1,534,744		-	1,534,744
Deferred revenues	558,290		-	558,290
Deferred intergovernmental revenues	-		39,910	39,910
Deferred federal financial assistance	-		411,229	411,229
Matured bonds due and payable	-	-	596,302	596,302
Total liabilities	<u>5,072,185</u>	<u>141,940</u>	<u>1,756,148</u>	<u>6,970,273</u>
Fund Balances				
Reserved for:				
Debt service	-	-	306,164	306,164
Capital projects	-	-	317,706	317,706
Other specified purposes	-	4,140,628	654,499	4,795,127
Unreserved, reported in:				
General fund	(3,107,410)	-	-	(3,107,410)
Total fund balances	<u>(3,107,410)</u>	<u>4,140,628</u>	<u>1,278,369</u>	<u>2,311,587</u>
Total liabilities and fund balances	<u>\$ 1,964,775</u>	<u>\$ 4,282,568</u>	<u>\$ 3,034,517</u>	<u>\$ 9,281,860</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Camuy
Reconciliation of the Balance Sheets-Governmental Funds
to the Statements of Net Assets
June 30, 2006

Governmental activities amounts reported in the statement of net assets and the balance sheet-governmental funds are different because:

Aggregate fund balance reported in the balance sheets - governmental funds	\$	2,311,587
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Add (Deduct):

Capital assets used in governmental activities are not financial resources, therefore are not reported in the governmental funds		20,422,060
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Bonus Receivable that will not be collected in the current period		81,375
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The following liabilities are not due(mature) in the current period, therefore are not reported in the governmental funds:

Accounts payable and accrued liabilities		(146,610)
Law 42		(986,562)
Law 146		(348,680)
Accrued Christmas bouns		(175,200)
Bonds and notes payables		(7,110,000)
Compensated absences		(1,368,734)
Claims and judgments		(110,000)
Due to other governmental entities		(618,727)
		(11,561,513)

Governmental activities net assets reported in statements of net assets	\$	<u><u>11,950,509</u></u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2006

	<u>Major Funds</u>		<u>Other</u>	<u>Total</u>
	<u>General Fund</u>	<u>Joint Resolutions</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
Revenues:				
Property taxes	\$ 2,138,380		\$ 445,005	\$ 2,583,385
Municipal license taxes	566,843			566,843
Construction excise taxes	382,816			382,816
Charges for service and Intergovernmental grants and contribution:				
Federal government			1,712,391	1,712,391
State government	5,754,903	2,946,605	401,076	9,102,584
Investment earnings	74,176		17,841	92,017
Micellaneous	66,289		25,472	91,761
Total revenues	<u>8,983,407</u>	<u>2,946,605</u>	<u>2,601,785</u>	<u>14,531,797</u>
Expenditures:				
General government	7,730,945		796,976	8,527,921
Urban and economic development			377,858	377,858
Public Safety	6,536			6,536
Health and sanitation				
Public housing and welfare	62,588	665,664	601,663	1,329,915
Culture, recreation and education	108,766			108,766
Environmental control	767,269			767,269
Debt service:				
Principal retirement			442,000	442,000
Interest and other			339,093	339,093
Capital outlays:				
Construction and remodeling of public facilities	12,935	1,891,073	1,127,217	3,031,225
Total expenditures	<u>8,689,039</u>	<u>2,556,737</u>	<u>3,684,807</u>	<u>14,930,583</u>
Excess (deficiency) of revenues over (under) expenditures	<u>294,368</u>	<u>389,868</u>	<u>(1,083,022)</u>	<u>(398,786)</u>
Other financing sources (uses):				
Proceeds from issuance of long term debt			1,248,000	1,248,000
Transfer from other funds	20,426		262,414	282,840
Transfers to other funds	(262,414)		(20,426)	(282,840)
Total other financing sources (uses), net	<u>(241,988)</u>	<u>-</u>	<u>1,489,988</u>	<u>1,248,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	52,380	389,868	406,966	849,214
Fund balance beginning	(3,159,790)	3,749,396	837,559	1,427,165
Prior-period adjustment		1,364	33,844	35,208
Fund Balance (deficit) at beginning of year, as restated	<u>(3,159,790)</u>	<u>3,750,760</u>	<u>871,403</u>	<u>1,462,373</u>
Fund Balance at end of year	<u>\$ (3,107,410)</u>	<u>\$ 4,140,628</u>	<u>\$ 1,278,369</u>	<u>\$ 2,311,587</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

OK
15/03/2007

Commonwealth of Puerto Rico

Municipality of Camuy

Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds to the Statements of Activities

June 30, 2006

Governmental activities amounts reported in the statement of activities and the
Net change in fund balances reported in the statement of Revenue,
Expenditures and changes in Fund Balances - Governmental Funds \$ 849,214

Add(deduct):

The following revenues recorded in the statement of activities does not
provide current financial resources, therefore are deferred in the
governmental funds:

Christmas Bonus Receivable 81,375

Long terms obligations recognized as other Financial resource in the
Governmental Fund as L.T.D. in Statement of Net Assets (1,248,000)

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 as depreciation and amortization expenses. This
year the amount by which capital outlays exceeded depreciation and
amortization expenses 2,097,187

Some expenses reported in the statements of activities do not require
the use of current financial resources, therefore are not reported as
expenditures in the governmental funds

Reduction on Expenditures 1,015,739

Net changes in net assets reported in statements of activities \$ 2,795,515

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements
June 30, 2006

1. Summary of Significant Accounting Policies

Organization

The Municipality of Camuy (the Municipality) is a local municipal government located in Puerto Rico and constituted with full legislative, fiscal and all other governmental powers and responsibilities not expressly assigned to the government of the Commonwealth of Puerto Rico (the Commonwealth).

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth provides for the separation of powers of the executive, legislative and judicial branches. A Mayor is elected every four years by the citizens in the general elections. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercise the judiciary power.

The Municipality assumes responsibility for providing services related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative duties.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the year ended June 30, 2006 in conformity with the generally accepted accounting principles of the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

a) *New Financial Reporting Model*

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below as of July 1, 2002. This statement requires the reporting of new financial information and restructure much of the information that governments have reported in the past. Reporting standards for financial statements have been significantly affected compared to those issued in prior years.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) Government-Wide Financial Statements (GWFS), (2) Fund Financial Statements, (3) Notes to Basic Financial Statements, and (4) Required Supplementary Information (RSI).

The RSI is a set of reports and information reported along with, but separate from, the Municipality's basic financial statements. In the accompanying basic financial statements, the required RSI is composed of the following elements: (1) Management Discussion and Analysis (MD&A) and, (2) Budgetary Schedule Comparison – General Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

a) *New Financial Reporting Model (Cont.)*

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2006, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As previously mentioned, other statements and interpretations were required in conjunction with GASB No. 34. Therefore, the Municipality has also adopted the following pronouncements at July 1, 2002: (1) GASB Statement No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*, (2) GASB Statement No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, (3) GASB Statement No. 38 - *Certain Financial Statement Note Disclosures*, and, (4) GASB Interpretation No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB No. 34 also requires that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 - *Accounting Changes*, (2) APB Opinion No. 21 - *Interest on Receivables and Payables*, (3) FASB Statement No. 5 - *Accounting for Contingencies*, and (4) FASB Statement No. 16 - *Prior Period Adjustments*. The Municipality has elected not to apply all Statements and Interpretations issued by FASB after November 30, 1989, in accordance with GASB No. 20.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the Municipality's Finance Director, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*.

The Municipality's management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

GASB Statement No. 14, - *The Financial Reporting Entity* (GASB No. 14), has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality as of June 30, 2006.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
June 30, 2006

c) *Government-Wide Financial Statements*

The accompanying government-wide financial statements (GWFS) are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's non-fiduciary governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances while reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity) or "net liabilities" (deficit). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure; and discloses legal and contractual restrictions on resources.

Net assets (liabilities) are classified in the accompanying statement of net assets within the following three categories:

- **Invested in Capital Assets, Net of Related Debt** – Consist of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of bonds, notes and any other debt that are attributed to the acquisition, construction, or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted Net Assets** – Consist of net assets restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation is defined as legislation that authorizes the Municipality to assess, levy, charge, or otherwise mandates payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net assets is intended to identify resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

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Notes to Basic Financial Statements (Continued)
June 30, 2006

c) Government-Wide Financial Statements (Continued)

Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources which are subject to change at the discretion of the Municipal Legislature.

- **Unrestricted Net Assets** – Consist of net assets that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified. When both restricted and unrestricted resources are available for use, it is the Municipality's policy to generally use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the results of the Municipality's operations by showing how the Municipality's net assets changed during the year ended June 30, 2006, using the net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs, or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education, and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal Legislature
- Mayor's office
- Department of Finance
- Department of Human Resources
- Department of Municipal Secretary
- Department of Internal Audit
- Department of Federal Programs
- Department of Public Relations

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
June 30, 2006

c) Government-wide Financial Statements (continued)

Urban and Economic Development:

Department of Public Works

Public Safety:

Department of Civil Defense

Police Department

Health and Sanitation

Department of Sanitation

Culture, Recreation and Education:

Department of Recreation and Sports

Welfare:

Center for the Elderly

The statement of activities reveals the degree to which direct expenses of a given function/program or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizenry. In the statement of activities, program revenues reduce the cost (expenses) of the function/program to attain the net cost of the function/program that must be financed from the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. These include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific capital and operating grants and contributions** – These consist of transactions that are either mandatory or voluntary nonexchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program.

Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

- **General revenues** – Are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other non tax revenues (including unrestricted

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

c) Governmental-Wide Financial Statements (continued)

investment earnings, grants and contributions and special items, among others) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities, includes expenses that are, in essence, indirect or overhead expenses of the Municipality's other functions/programs. Even though some of these costs have been charged to other funds in the governmental fund financial statements as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect expenses as direct expenses of the general government function. Accordingly, the Municipality does not allocate general government (indirect) expenses to other functions.

The effects of all interfund governmental activities (revenues, expenditures and other financing sources/uses among funds) have been removed from the accompanying statements of net assets and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues, and other non exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the governmental fund financial statements.

The accompanying GWFS do not report fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no significant operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

Accordingly, the accompanying GWFS do not report fiduciary nor business-type activities.

d) Governmental Fund Financial Statements

The accompanying governmental fund financial statements (GFFS) are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds by presenting sources, uses, and balances of current financial resources. These financial statements often have a budgetary orientation and focus primarily on: (1) the Municipality's major funds, as defined below, (2) the fiscal accountability, and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current year have complied with public decisions concerning the raising and spending of public moneys in short term (usually one budgetary cycle or one year).

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue, and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
June 30, 2006

d) Governmental Fund Financial Statements(continued)

demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General Fund** – The general fund is the Municipality’s chief operating and major fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund type. It is presumed that the Municipality’s governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements, or (3) the demands of sound financial administration requiring the use of a fund other than the general fund.
- **Special Revenue Funds** – The special revenue funds are major and non-major funds used by the Municipality to account for revenues derived from grants or other revenue sources (other than major capital projects) that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality’s general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- **Debt Service Fund**– The debt service fund is a major fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds and notes for which debt service payments are legally mandated to be accounted for in a debt service fund, and/or (2) general long-term debt for which the Municipality is accumulating financial resources in advance, to pay principal and interest payments maturing in future years. General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as capital leases, compensated absences, claims and judgments, notes payable to CRIM and federal government, federal cost disallowances, and solid waste landfill closure and post-closure costs, among others) are accounted for in the general fund. Long-term debt’s principal and accrued interests due on July 1 of the following fiscal year are accounted for as fund liabilities in the debt service fund at June 30, if resources are available at June 30 for its payment.
- **Capital Project Funds** – Capital project funds are non-major funds, as defined below, used to account for the financial resources used in the acquisition or construction of major capital facilities, other assets and permanent improvements. Significant capital outlays financed from general obligation bond proceeds are also accounted for in the capital project funds.

The use of the capital project funds has been reserved for major capital acquisitions or construction activities that would distort financial resource trend data if not reported separately from the other Municipality’s operating activities. The routine purchases of minor capitalizable assets (such as vehicles and other minor capital assets) have been reported in the fund from which financial resources were used for the purchase.

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Notes to Basic Financial Statements (Continued)
June 30, 2006

e) Governmental Fund Financial Statements (continued)

The Municipality was required to report governmental fund financial statements in a single aggregated column for each fund type. Each column presented the combined total of all funds of a particular type. Fund types are still reported in certain cases, but they are no longer the focus of the accompanying governmental fund financial statements. Under GASB No. 34, the focus of the governmental fund financial statements is on major funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds among major and nonmajor categories within the governmental fund financial statements. Major individual governmental funds are reported individually as separate columns in the governmental fund financial statements, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's General Fund is always considered a major governmental fund for financial reporting purposes. In addition, any other fund is considered a major fund for financial reporting purposes if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances), except for other financing sources. Total expenditures for these purposes means all expenditures, including operating and non-operating expenditures, except for other financing uses.

As previously discussed, the Municipality has no assets held in a trustee or agency capacity for others, nor has significant operations or activities that are financed and operated in a similar manner to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges. As a result, the Municipality does not report fiduciary nor proprietary funds in the accompanying basic financial statements.

e) Measurement Focus and Basis of Accounting

Government-Wide Financial Statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including investment earnings) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

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Notes to Basic Financial Statements (Continued)
June 30, 2006

e) Measurement Focus and Basis of Accounting(continued)

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33), which the Municipality adopted on July 1, 2002. GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues; (b) government mandated non-exchange transactions; and (c) voluntary non-exchange transactions.

In the case of derived tax revenue transactions (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is, when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed non-exchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes are generally recorded as revenues (net of amounts considered not collectible) in the period when resources are required to be used or the first period that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as federal and state grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, resources must be expended by the Municipality on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures when incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

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

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

The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations with brief explanations to better identify the relationship between the GWFS and the GFFS.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements - The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2006, except for property taxes for which the availability period is 60 days.

Revenue sources not meeting these availability criteria or collected in advance are recorded as deferred revenues at June 30, 2006. The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, and investment earnings. These principal revenue sources meet the measurability and availability criteria in the accompanying GFFS.

In a similar manner to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services, and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded using the previously discussed criteria set forth by GASB No. 33, but subject to and limited by the availability criteria discussed above. Accordingly, municipal license tax receivables and revenues are generally recorded when the underlying exchange has occurred. Property tax receivables are also generally recorded in the period when an enforceable legal claim has arisen while property tax revenues (net of amounts considered not collectible) are also generally recorded in the period when resources are required to be used or the first period that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally as qualifying reimbursable expenditures are incurred).

Investment earnings are recorded when earned only if collected within 90 days after year-end since they would be considered both measurable and available.

Pursuant to the provisions of GASB No. 6, expenditures and related liabilities are generally recorded in the accompanying governmental fund financial statements in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Governmental Fund Financial Statements

Modifications to the accrual basis of accounting include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when utilized. The amount of the unpaid compensated absences has been reported only in the GWFS.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest due in July 1 of the following fiscal year, which are recorded when resources are available in the debt service funds (generally June 30).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

- Obligations under capital leases, solid waste landfill closure and post closure care costs, amounts subject to judgments under litigation and other long-term obligations are recorded only when they mature (when the payment is due).
- Accounts payable and accrued liabilities not expected to be liquidated with available financial resources are recorded in the government-wide financial statements but not in the governmental funds.
- Executor purchase orders and contracts are recorded as a reservation of fund balance.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

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

Under the new financial reporting model established by GASB No. 34, all general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are now incorporated into the GWFS.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare each fiscal year an annual budget for the Municipality's general fund and debt service fund. Such legally adopted budget is based on expected expenditures by program and estimated resources by source for both funds. The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

Budgetary Control

The Mayor must submit an annual budgetary resolution project (the project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminarily verifies that the project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days up to no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approve the project, the modified project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the project is rejected by the Mayor, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

objections of the Mayor. The approved project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If a budget is not adopted prior to the end of the deadlines referred to above, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits the Municipality to continue making payments for its operations and other purposes until the new budget is approved.

The annual budget may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budget, which is subject to the approval of the Municipal Legislature.

For day to day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. The Municipal Legislature may transfer amounts among programs within and between funds.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budget is prepared under the budgetary basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenue is generally recognized when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

Under the budgetary basis of accounting, the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects 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.

g) Unrestricted and Restricted Deposits

The Municipality's deposits are composed of cash on hand and demand deposits in commercial banks and the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any excess is invested in certificates of deposit with original maturities of more than three months.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held in the Municipality's name by agents designated by the Secretary of the Treasury of the Commonwealth.

Restricted cash for major special revenue and capital projects funds, represent the balance of interest and noninterest bearing accounts restricted to finance the operations of federal and state funded programs and the acquisition, construction and improvement of major capital improvements, respectively.

Restricted cash in other governmental funds represents: (1) resources restricted to finance the operations of federal and state funded programs, and (2) resources restricted for the acquisition, construction and improvements of capital improvements.

h) Unrestricted and Restricted Accounts Receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2006. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Tax receivables in the debt service fund consist of uncollected property taxes which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are mainly composed of amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to state and federally funded programs (recorded in the special revenue fund).

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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 inter fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Cash equivalents

Cash equivalents are composed of certificates of deposit with original maturities of less than three months. Investments are held with commercial banks and are recorded at cost (which approximates fair value).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

j) Deferred Charges

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

k) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying GWFS. Infrastructure assets are generally immovable in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets. The Municipality has no collection of works of art or historical treasures.

The Municipality defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition or construction, and with a useful life extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as expenditures.

Major outlays for capital assets and improvements are capitalized in the GWFS. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	50
Infrastructure	20 to 50
Motor vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

l) Deferred Revenues

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue arises when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days thereafter to pay obligations due at June 30, or;
- Resources are received by the Municipality before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

m) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB No. 16. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the government-wide statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2006, and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of Social Security taxes, Medicare taxes, employer contributions to the employees’ retirement systems and others). The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 60 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave days is not paid to the employee. After 10 years of services any sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

n) Long-term Debt

The long-term liabilities reported in the GWFS include the Municipality’s general obligation and public improvements bonds, long-term notes, obligation under capital leases, compensated absences, and legal claims and judgments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statement of net assets, except for principal and interest payment on bonds due in July 1 of the following fiscal year, which is recorded in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, long-term debt is generally not reported as liabilities. The face amount of the debt issued is reported as other financing sources.

In the GWFS debt issuance costs are reported as deferred charges and are amortized under the straight-line method over the life of the debt while in the GFFS are recognized as expenditures as during the current period. The note discount is amortized over the life of the note using the effective interest method. Amortization of the note discount is recorded as part of interest expense in the statement of activities. In the GFFS, note discounts are recognized as other financing uses during the current period.

o) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, the two retirement systems in which the employees of the Municipality participate. Accordingly, the Municipality is considered a participant and not a sponsor of these retirement systems since substantially all of the participants in the aforementioned pension trust funds are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS and System 2000 has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico accounts for the total amount of the net pension obligation of ERS and System 2000, including any amount that may be allocated to the Municipality.

The Municipality accounts for pension costs from the stand point of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions. In the GFFS the statutory contributions and the related liability are accounted for under the modified accrual basis of accounting while in the GWFS, are recorded under the accrual basis of accounting.

p) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims, and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury on behalf of all of municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center (known as "CRIM", by its Spanish Acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (known as "AACA", by its Spanish Acronyms), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality provides workers' compensation insurance coverage to its employees through the State Insurance Fund Corporation, a component unit of the Commonwealth. This insurance covers workers against

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality provides unemployment compensation, non-occupational disability, and drivers' insurance coverage to its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a quarterly basis.

The Municipality also provides medical insurance coverage to all employees. The current insurance policies have not been canceled or terminated at June 30, 2006. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

q) Reservations of Fund Balances

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

- **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.
- **Capital Projects** – Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- **Debt Service** – Represent fund balances available to finance future debt service payments.
- **Other Specified Purposes** – Represents resources set aside for use under federal and state grant programs accounted for in special revenue funds.

r) Inter-fund Transactions

Permanent reallocations of resources between the Municipality's funds are classified as inter-fund transfers. The Municipality has the following types of transactions recorded among funds in the GFFS:

- **Operating Transfers** – Represent legally required transfers that are reported when incurred as "operating transfers-in" by the recipient fund and as "operating transfer-out" by the disbursing fund.
- **Intra-Entity Transactions** – Represent transfers between the funds of the Municipality that are reported as inter-fund transfers with receivables and payables presented as amounts due to and due from other funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

- *Advances* – Represent the amounts advanced among the funds of the Municipality, which are not considered to be currently available financial resources.

s) Use of Estimates

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

2. Deposits and Investments

The Municipality maintains its deposits of cash with various commercial banks located in Puerto Rico and GDB. The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to a maximum of \$100,000 per depositor.

Under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amounts deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury’s agents in the Municipality’s name.

Pursuant to Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico, the Municipality may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, banker’s acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others.

3. Municipal License Taxes

The Municipality is authorized by law to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Camuy. This is a self-assessed tax based on the business volume in gross sales. The Municipality establishes the applicable tax rates. At June 30, 2006, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for any other taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return every May 15 based on the actual volume of business generated in the preceding calendar year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the tax amount due. Any municipal license taxes collected in advance (that is, pertaining to a future period) are recorded as deferred revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

4. Property Taxes

The Municipality is authorized by law to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on April 15 subsequent to the assessment date. The total personal property tax rate in force was 6.28% (of which taxpayers pay 6.08% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2006. Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 8.28% (of which 8.08% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2006.

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4%) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to the Municipality based on the initial estimated collections. 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 December 31. If CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.25% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

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

- i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006**

Governmental Fund Financial Statements (Continued)

4. Property Taxes (Continued)

- ii. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth.
- iii. Resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

5. Inter-fund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2006 and for the year then ended is as follows:

<u>Due/advances to:</u>	<u>Due/advances from:</u>		
	<u>General Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Major funds:			
General fund	\$ -	\$ 2,611,640	\$ 2,611,640
Nonmajor funds:			
CEMAR	34,135	-	34,135
COPS	69,504	-	69,504
OMME	2,084	-	2,084
FTA	7,200	-	7,200
OBRAS PUBLICAS	1,000	-	1,000
LEY 52	209,423	-	209,423
SBGP	53,947	-	53,947
SENDEC	146,525	-	146,525
USDA	5,439	-	5,439
VERANO SENDEC	1,801	-	1,801
Total	<u>\$ 531,058</u>	<u>\$2,611,640</u>	<u>\$ 3,142,698</u>

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2006.

<u>Transfer to:</u>	<u>Transfer to/from:</u>		
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
General fund	\$ -	\$262,414	\$262,414
Debt services fund	20,426	-	20,426
Total	<u>\$ 20,426</u>	<u>\$262,414</u>	<u>\$282,840</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY**
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

6. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS at June 30, 2006 are as follows:

	Major Funds	Other Governmental Funds	Total Governmental Funds	Statement of Net Assets
Intergovernmental receivable:				
Grant and Contributions:				
Ley 52 Program Fund	\$	\$ 116,083	\$ 116,083	\$ 116,083
High way auditory		124,000	124,000	124,000
Debt services fund		1,966	1,966	1,966
Puerto Rico Treasury Department (Reimbursement of Christmas Bonus)				81396
Puerto Rico Electric Power Authority	<u>1,104,225</u>		<u>1,104,225</u>	<u>1,104,225</u>
Total intergovernmental receivable	<u>\$ 1,104,225</u>	<u>\$ 242,049</u>	<u>\$ 1,346,274</u>	<u>\$ 1,427,650</u>
Intergovernmental payable:				
Municipality of Arecibo	\$			\$ 325,000
Internal Revenues Service (Social Security)	197,548		197,548	197,548
General Service Administration of the Commonwealth of Puerto Rico	78,809		78,809	78,809
Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities	113,900		113,900	113,900
Puerto Rico Department of Labor	40,262		40,262	40,262
Puerto Rico Aqueduct and Sewer Authority				38,990
Puerto Rico Electric Power Authority	1,104,225		1,104,225	1,104,225
Puerto Rico Treasury Department				94,032
CRIM				<u>160,705</u>
Total intergovernmental payable	<u>\$ 1,534,744</u>		<u>\$ 1,534,744</u>	<u>\$ 2,153,471</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006**

Governmental Fund Financial Statements (Continued)

7. Capital Assets

Capital assets activity during the year ended June 30, 2006 is as following:

	Balance at June 30, 2005 as restated	Additions, depreciation, and amortization expense	Balance at June 30, 2006
Cost Basis:			
Capital assets, not subject to depreciation and amortization:			
Land	\$ 3,391,061	\$ 448,000	\$ 3,839,061
Construction in progress	2,129,447	1,841,559	3,971,006
Total cost basis of capital assets, not subject to depreciation and amortization	<u>5,520,508</u>	<u>2,289,559</u>	<u>7,810,067</u>
Capital assets, subject to depreciation and amortization:			
Land improvements	2,123,276		2,123,276
Buildings, structures, and building improvements	7,893,543	25,682	7,919,225
Infrastructure	13,286,415	225,344	13,511,759
Furnitures and Fixtures	1,123,342		1,123,342
Vehicle and equipment	2,001,838	490,640	2,492,478
Total cost basis of capital assets subject to depreciation and amortization	<u>26,428,414</u>	<u>741,666</u>	<u>27,170,080</u>
Total cost of capital assets	<u>31,948,922</u>	<u>3,031,225</u>	<u>34,980,147</u>
Accumulated depreciation and amortization:			
Land improvements	1,246,043	75,869	1,321,912
Buildings, structures, and building improvements	2,066,309	139,234	2,205,543
Infrastructure	8,220,527	517,884	8,738,411
Other machinery and equipment	806,170	36,618	842,788
Licensed vehicles	1,284,999	164,434	1,449,433
Total accumulated depreciation and amortization	<u>13,624,048</u>	<u>934,039</u>	<u>14,558,087</u>
Net capital assets	<u>\$ 18,324,874</u>	<u>\$ 2,097,186</u>	<u>\$ 20,422,060</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

Governmental Fund Financial Statements (Continued)

7. Capital Assets (Cont.)

Depreciation and amortization expense was charged to functions in the accompanying government-wide statement of activities as follows:

General government	\$ 65,383
Public safety	28,021
Public housing and welfare	18,681
Culture, recreation, and education	130,765
Health and sanitation	56,042
Urban Development	635,147
Total depreciation and amortization expense	<u>\$ 934,039</u>

8. Long-Term Obligations

The general long-term debt activities for the year ended June 30, 2006 was as follows:

	<u>Balance at June 30, 2005</u>	<u>Borrowings/ additions</u>	<u>Payments/ deductions</u>	<u>Discount accretion</u>	<u>Balance at June 30, 2006</u>	<u>Due Within One Year</u>
Bonds payables	\$ 6,304,000	\$ 800,000	\$ (442,000)		\$ 6,662,000	\$ 420,000
Notes payable:						
Puerto Rico Governmental Bank		448,000			448,000	
Puerto Rico Treasury Department (Property Tax Advances)	1,001,307		(14,745)		986,562	14,745
CRIM (Delinquent Acc)	348,680				348,680	
Compensated absences	1,181,284	187,450			1,368,734	577,436
Claims and judgments	209,180		(99,180)		110,000	110,000
Total	<u>\$ 9,044,451</u>	<u>\$ 1,435,450</u>	<u>\$ (555,925)</u>		<u>\$ 9,923,976</u>	<u>\$ 1,122,181</u>

a) Debt Limitation

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality.
- Direct obligations are not be issued by the Municipality if the amount of the principal of, and interest on, such bond and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

8. Long-Term Obligations (Continued)

a) Debt Limitations (continued)

notes guaranteed by the Municipality, exceed 10% of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement.

b) Bonds Payable

The Municipality issues general obligation and public improvement bonds that can be used to finance the acquisition and construction of capital assets, as well as, to cover certain operating needs.

The laws and regulations of the Commonwealth provide that public debt of the Municipality will constitute a first claim on the available revenue of the Municipality. Public debt includes general obligation bonds, public improvement bonds and notes payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds, public improvement bonds and notes payable.

The Municipality levies an annual additional special tax of 1.40% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. The proceeds of this special tax are recorded in the debt service fund.

For financial reporting purposes, the outstanding amounts of bonds represent the total principal to be repaid.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

8. Long-term obligations (Continued)

Bonds and other long-term liabilities outstanding at June 30, 2006 are as follows:

General Obligations

1996 serial notes, original amount of \$125,000, due in annual principal installment 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.	\$ 80,000
1997 serial bonds, original amount of \$305,000, due in annual principal installment 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.	45,000
2001 serial notes, original amount of \$1,675,000, due in annual principal installment 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.	1,570,000
2001 serial notes, original amount of \$445,000, due in annual principal installment 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.	225,000
2005 serial notes, original amount of \$2,950,000, due in annual principal installment ranging from \$60,000 to \$205,000 plus interests, due in semiannual installments at variable rates not to exceed 5% through July 1, 2029.	2,890,000

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.	190,000
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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.	135,000
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.	206,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

8. Long-term obligations (continued)

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. 236,000

2005-2006 serial bonds, original amount of \$800,000, due in annual principal installments ranging from \$95,000 to 135,000, plus interests, due in semiannual installments at rates of 5.33% to 4.73% through January 1, 2020 800,000

Special Found-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 Jul 1, 2016. 285,000

Total bonds payable \$ 6,662,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

8. Long-term obligations (continued)

c) 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.

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 to \$986,562 and \$1,050,938, respectively, at June 30, 2006.

Year Ending June 30,	Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2007	\$ 420,000	\$ 367,069	\$ 14,745	\$ 1,965
2008	424,000	387,901	15,690	61,019
2009	439,000	348,043	16,696	60,013
2010	321,000	328,537	17,767	58,943
2011	302,000	313,123	18,906	57,804
2012-2016	1,378,000	1,251,458	114,339	269,208
2017-2021	1,158,000	903,152	156,006	227,544
2022-2026	1,325,000	516,917	212,848	170,700
2027-2031	895,000	106,113	290,413	74,219
2032-2036			419,565	21,783
Total	\$ 6,662,000	\$ 4,416,199	\$ 986,562	\$ 1,050,938

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

8. Long-term obligations (continued)

d) Line of credit with Puerto Rico Governmental Bank- \$550,000.

The Municipality entered into a financing agreement with Puerto Rico Governmental Bank in which the Municipality obtained a Line of Credit for \$550,000. The Line of Credit requires quarterly interest payments at a variable rate, with a floor of 5% and a ceiling of 12%. At June 30, 2006 the Line of Credit had an outstanding balance of \$448,000.

e) Note Payable to CRIM (Delinquent accounts)

On March 19, 2002, the Resolution Num. 36 Series 2001-2002 was enacted which authorized the Municipality to obtain a loan up to \$348,680, for a term not to exceed 30 years, for the repayment of bonds issued for the sale of delinquent accounts. The repayment agreement bears interest at variable rates (beginning in 6.50% at June 30, 2004). The outstanding principal balances of the note payable to CRIM amounted to \$348,680 and base on the information provided by the agency mentioned above; invest paid during fiscal year 2006 amounted to \$10,244.

f) Compensated Absences

At June 30, 2006, the composition of the liability for compensated absences is composed as follows:

	Due Within One Year	Due After One Year	Total
Vacation and sick leave	\$ 577,436	\$ 791,298	\$ 1,368,734
Total	\$ 577,436	\$ 791,298	\$ 1,368,734

9. Employees' Retirement System

g) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities ("ERS"). The ERS is the administrator of a multi-employer (as related to the Municipality's reporting entity) defined pension plan (the "System") established by the Commonwealth. The System was created under Act. No. 447 (the "Act"), 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, the Municipality and other municipalities of the Commonwealth of Puerto Rico.

The System is independent, thus assets may not be transferred to another system or used for any other purpose other than for benefit each system's participants. The System issues publicly available financial reports that include basic financial statements and certain required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

9. Employees' Retirement System (Copntinued)

g) Plan Description

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program ("System 2000").

System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons employed on or after January 1, 2000, are only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of the current defined benefit plan.

Benefits at retirement are not guaranteed by the Commonwealth of Puerto Rico or the Municipality. The annuity is based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the participant' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note; (2) earn a rate equal to 75% of the return of ERS's investment portfolio (net of management fees); or (3) earn a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employer's contributions (9.275% of the participant' salary) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

On August 12, 2000, Act No. 174 was approved to allow certain participants of ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75% (if 25 or more years of service and age 55, or 30 or more years of service and age 50) or benefits of 65% (if 25 years of service by less than age 55) of their average compensation which is computed based on the highest 36 months of compensation recognized by ERS. In the cases, the sponsor contribution with respect to the participants covered until the participants reach the normal retirement age.

Historically, the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements. Accordingly, the Commonwealth of Puerto Rico is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees since the System does not allocate any

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

9. Employees' Retirement System (Copntinued)

actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates detailed below.

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. Contribution's 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 each financial statement for the year ended June 30, 2005, a copy of which can be obtained from ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

10. Deferred Revenues

At June 30, 2006, deferred revenues recorded in the GFFS and the GWFS are as follows:

	<u>Major Funds</u>		<u>Total Governmental Funds</u>	<u>Statement of net assets</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>		
Measurable but not available revenues:				
Municipal Volume Business	\$ 558,290		558,290	\$ 558,290
Total	<u>\$ 558,290</u>		<u>558,290</u>	<u>\$ 558,290</u>
Unearned revenues:				
Intergovernmental grants and contributions:				
U.S. Department of Health and Human Services:				
Child Care Program		37,024	37,024	37,024
USDA		2,886	2,886	2,886
U.S. Department of Housing and Urban Development				
Section 8		269,344	269,344	269,344
Verano SENDEC		7,274	7,274	7,274
Tormenta Jeanne		126,165	126,165	126,165
Tormenta George		7,422	7,422	7,422
CEMAR		1,024	1,024	1,024
Total unearned revenues		<u>451,139</u>	<u>451,139</u>	<u>451,139</u>
Total deferred revenues	<u>\$558,290</u>	<u>\$451,139</u>	<u>\$1,009,429</u>	<u>\$1,009,429</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

11. Contingencies

The Municipality is defendant in numerous claims and legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1995, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment for any judgment that may be entered against them. There is no limitation on the payment of such judgments. With respect to pending and threatened litigation, the Municipality has reported liabilities amounting to \$110,000 for awarded and anticipated unfavorable judgments at June 30, 2005. This amount was included as a current portion of long-term obligation in the accompanying statement of net assets, and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, when will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts recorded in the accompanying statement of net assets, if any, would not be material to the basic financial statements taken as a whole.

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality. The *"Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133"* for the year ended June 30, 2005, disclosed various instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors, consequently, the accompanying basic financial statements do not include any provision or reserve for possible disallowed costs arising from the federal funds disbursed during fiscal year ended June 30, 2005

12. Accounting Changes, Changes in Reporting Entity

The Municipality implemented new accounting standards and an interpretation issued by GASB. GASB No. 34, as amended by GASB No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

GASB No. 38 requires certain note disclosures when GASB No. 34 is implemented. The provisions of this new standard have been incorporated into the basic financial statements and notes.

GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (1) governmental fund liabilities and (2) general long-term liabilities of the Municipality. The provisions of this interpretation have been incorporated into the basic financial statements and notes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Notes to Basic Financial Statements (Continued)
June 30, 2006

14. Fund Balance Restatement

a) The beginning funds balances of the other governmental funds and the joint resolution fund were restated to correct an overstatement of the Due to Other Funds and an overstatement of Deferred Revenues in the total amount of \$35,208. The following schedule reconciles the fund balance at June 30, 2005 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 Previously Reported</u>	<u>Correction of Errors</u>	<u>Balance at Beginning of Year as Restated</u>
Other governmental funds	\$ 837,559	\$ 33,844	\$ 871,403
Joint Resolution Fund	\$ 3,749,396	\$ 1,364	\$ 3,750,760
Total	<u>\$ 4,586,955</u>	<u>\$ 35,208</u>	<u>\$ 4,622,163</u>

b) The beginning balance of net assets was restated to current and under statement of the Bonds Payable in the amount of \$120,000. Also it was restated to current on our statement in the beginning of balances of Due to Other Funds and Deferred Revenues in the total amount of \$35,208. The net effect in the beginning balance of Net Assets - GWFS is as follows:

Net Assets – GWFS – Beginning Balance as previously reported	\$ 9,239,788
Adjustment	<u>(84,794)</u>
Net assets – GWFS - Beginning Balance as restated	<u>\$ 9,154,994</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual amounts (budgetary basis) (see note 1)</u>	<u>Variance with final budget - over (under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 6,810,063	\$ 6,810,063	\$ 6,526,858	\$ (283,205)
Municipal license taxes and permits	803,950	803,950	949,224	145,274
Charges for services	26,000	26,000	29,012	3,012
Intergovernmental grants and contributions	1,063,910	1,063,910	1,152,774	88,864
Investment earnings	5,000	5,000	74,165	69,165
Miscellaneous	45,500	45,500	35,291	(10,209)
Total revenues	<u>8,754,423</u>	<u>8,754,423</u>	<u>8,767,323</u>	<u>12,900</u>
Expenditures:				
Current:				
General government	\$ 3,788,622	\$ 4,082,680	\$ 3,555,029	(527,651)
Public safety	610,045	525,941	521,050	(4,891)
Urban and economic development	653,584	655,857	645,151	(10,706)
Environmental Control	1,520,871	1,556,733	1,303,127	(253,606)
Health	429,621	402,772	402,772	0
Culture, recreation, and education	527,357	499,124	444,624	(54,500)
Public housing and welfare	1,224,323	1,031,316	914,465	(116,851)
Total expenditures	<u>8,754,423</u>	<u>8,754,423</u>	<u>7,786,218</u>	<u>(968,205)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,105</u>	<u>\$ 981,105</u>
Explanation of Differences:				
Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 8,767,323
Differences - budget basis to GAAP:				-
Resources considered revenues for budgetary purposes but for financial reporting purposes are not considered revenues				216,084
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>8,983,407</u>
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				7,786,218
Differences - budget basis to GAAP:				-
Outflows of budgetary resources used for financing expenditures that are not considered expenditures for budgetary purposes				1,273,996
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 8,689,039</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor Pass/ Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursments Expenditures</u>
U. S. Department of Housing and Urban Development		
Direct Programs		
Housing Choice Voucher	14.871	\$ 651,222
Indirect Program:		
Pass-throug Puerto Rico Office of Municipal Affairs State Block Grants Program (SBGP)	14.228	<u>620,302</u>
Subtotal-HUD		1,271,524
U.S. Department of Health and Human Services (HHS)		
Passed through Administration of Families and Children- Child Care and Deveelopment Grant	93.575	<u>255,413</u>
Sub-total HHS		255,413
U.S. Department of Transportation		
Passed through PR Highway Authority Federal Transit Capital Improvement Grants	20.500	<u>4,060</u>
Sub-total Department of Transportation		4,060
U.S. Department of Agriculture		
Pass-through Education Department Child and Adult Care Food Programs	10.558	<u>10,976</u>
Sub-total U.S. Department of Agriculture		10,976
Federal Emegency Mnagement Assitance		
Disaster Assistance	83.544	<u>40,000</u>
Sub-total Federal Emergency Management Assistance		40,000
Total		<u><u>\$ 1,581,973</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards present 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 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.

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Gil Alberto Ortiz Cabrera

Certified Public Accountant & Professional Consultant

**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

I have audited the financial statements of the Municipality of Camuy as of and for the year ended June 30, 2006, and have issued our report thereon dated December 14, 2006. I 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, I 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 my audit, and accordingly, I do not express such as an opinion. The results of my tests disclosed instances of noncompliance that are 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 the audit, I considered the Municipality of Camuy internal control over financial reporting in order to determine my 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, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Municipality of Camuy ability to record, process, summarizes, 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 I 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.

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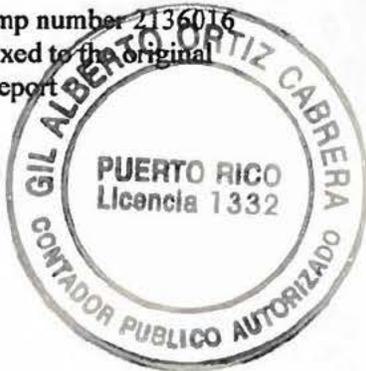
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

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 misstatement 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. My 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, I 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 used by anyone other than these specified parties.


CPA Gil Alberto Ortiz Cabrera
Lic. # 1332
Dorado, Puerto Rico
December 14, 2006

The stamp number 2136016
was affixed to the original
of this report



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Puerto Rico Board of Certified Public
Accountants*

Gil Alberto Ortiz Cabrera

Certified Public Accountant & Professional Consultant

**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

I 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, 2006. 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. My responsibility is to express an opinion on the Municipality of Camuy compliance based on our audit.

I conducted the 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 I 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 necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My 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 my 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 federal programs for the year ended June 30, 2006.

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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
(CONTINUED)**

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 the audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I 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 my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my 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. My 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, I 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 used by anyone other than these specified parties.


CPA Gil alberto Ortiz Cabrera
Lic. # 1332
Dorado, Puerto Rico
December 14, 2006

The stamp number 2136017
was affixed to the original
of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section I: 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, 2006 disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

**SBGP
CFDA No. 14.228**

Condition 06-01

The federal program office does not maintain an adequate physical inventory of the equipment acquired with 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 it to the equipment records when federal program acquire equipment in excess of \$5,000.

Cause

The Municipality does not maintain a proper physical inventory.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation'

The Municipality should implement a physical inventory for those items having a cost over \$5,000. The inventory items shall be properly identified and maintained into federal program offices in order to comply with federal regulations.

Condition 06-02

The SBGP program should minimize the time elapsing between the transfer of 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 that federal funds should be used between three to five labor days in order to maintain less than \$5,000 is the bank account.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Condition 06-02 (Continued)

Cause

The Municipality does not make the disbursement between 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 in the time required.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 04-01 The waiting list deficiencies	Cl Condition corrected
Section 8 CFDA No. 14.855	Condition 04-3 No administrative plan	Still Prevail
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