

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CAMUY
AUDITORIA 2006-2007

30 DE JUNIO DE 2007

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2007**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
Basic Financial Statements and Supplemental Schedules
June 30, 2007**

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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, 2007, 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, 2007, 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 November 13, 2007 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.

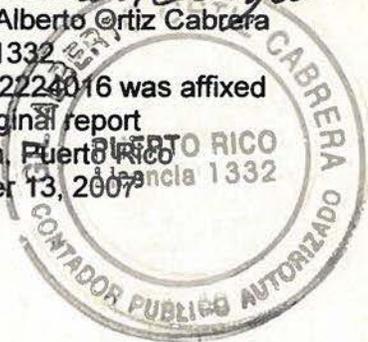
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My audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A-133. Audit of States, Local Government, and Non-Profit Organizations, and is not a 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 to 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
Stamp # 2224016 was affixed
to the original report
San Juan, Puerto Rico
November 13, 2007



MANAGEMENT DISCUSSION AND ANALYSIS

Management of the Municipality of Camuy of the Commonwealth of Puerto Rico (the Municipality) provides this *Management's Discussion and Analysis* (MD&A) for the readers of the Municipality's basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2007. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2003, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements – and Management's Discussion – and Analysis – for State and Local Governments*, issued by the Governmental Accounting Standards Board (GASB No. 34).

FINANCIAL HIGHLIGHTS

a) Government-Wide Highlights

- **Assets** – The Municipality has reported assets amounting to \$32.8 millions in the accompanying statement of net assets, of which the most significant are capital assets and cash amounting to \$22.7 millions and \$7.1 millions, respectively.
- **Liabilities** – The Municipality has reported liabilities amounting to \$21.7 millions in the accompanying statement of net assets, of which the most significant are Intergovernmental payable, deferred revenues, and other non current liabilities amounting to \$1.8 millions, \$4.8 millions, and \$13.6 millions, respectively.
- **Net assets** – *Net* assets consist of unrestricted deficit of \$18.2 millions, \$5.2 millions restricted assets for the payment of debt and restricted assets received from Federal and State Grants and net assets invested in capital assets in the amount of \$24.1 millions.
- **Net change in net assets** – The Municipality's net assets decreased by \$719 thousands during fiscal year ended June 30, 2007. Net assets at June 30, 2007 amounted to \$11.2 millions. Net assets decreased principally due to a negative result of operations in the amount of \$1,036,752.
- **Revenues** – The accompanying Statement of Activities reports that during the year ended June 30, 2007 the Municipality had revenues amounting to \$15.4 millions, of which the most significant are revenues from taxes, operating grants and capital grants and contributions amounting to \$2.8 millions, and \$10.6 millions, respectively.
- **Expenses** – The accompanying Statement of Activities reports that The Municipality had expenses amounting to \$16.4 millions.

MANAGEMENT DISCUSSION AND ANALYSIS

b) Governmental Funds Highlights

- **Assets** – The Municipality's governmental funds have reported combined assets amounting to \$13.2 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash and due from other funds, amounting to \$7.1 millions, and \$3.0 millions respectively.
- **Liabilities** – The Municipality's governmental funds have reported combined liabilities amounting to \$10.9 millions in the accompanying balance sheet – governmental funds, of which the most significant are intergovernmental payable, inter-fund due to other funds, and deferred revenues amounting to \$1.8 millions, \$3.0 millions, and \$4.7 millions, respectively.
- **Governmental fund balances** – The Municipality's governmental funds reported combined fund balance amounting to \$2.2 million, of which \$5.2 millions and (\$3.0) millions represents reserved and unreserved fund balances, respectively.
- **Net change in governmental fund balances** – The Municipality's governmental fund balances decreased by (\$395) thousands during fiscal year ended June 30, 2007. Governmental fund balances at June 30, 2007 amounted to \$2.2 millions. The decrease in fund balances represents the excess of expenditures and other financing uses over revenues.
- **Revenues** – The Municipality's governmental funds have reported combined revenues amounting to \$15.4 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are property taxes, intergovernmental grants and contributions, miscellaneous, and federal grants amounting to \$2.2 millions, \$8.8 millions, \$1.1 millions, and \$1.7 millions, respectively.
- **Expenditures** – The Municipality's governmental funds have reported combined expenditures amounting to \$16.4 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are categorized as general government; public works, health and welfare, and capital outlays amounting to \$5.0 millions, \$3.2 millions, \$1.6 million and \$2.8 millions, respectively.

USING THIS ANNUAL REPORT

This annual report consist of a series of financial statements similar to the previous financial statements. The 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.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements).

MANAGEMENT DISCUSSION AND ANALYSIS

This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

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, 2007 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, 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist principally of 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 Municipality's fund financial statements, which consist 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Fund Financial Statements (Continue)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year (June 30, 2007). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has four major funds: (1) the general fund, (2) state legislature joint resolutions, (3) Loan Guarantee Fund, and (4) Special Projects Fund.

Notes to the Basic Financial Statements

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

MANAGEMENT DISCUSSION AND ANALYSIS

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the composition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the retroactive and prospective reporting of infrastructure assets. The Municipality expect to retroactively record the historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach method.

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, net assets (excess of assets over liabilities) amounted to \$11.2 millions at June 30, 2007. For the year ended June 30, 30006 the Municipality had Net Assets amounting to \$11.9 millions.

The largest portion of the Municipality's net assets are invested in capital assets net of their related debt (\$24.1 millions). The Municipality's net assets is composed of a net assets amounting to \$29.3 millions restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, it includes an unrestricted deficit reported in the amount of (\$18.2) millions.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continue)

Net Assets (Continue)

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt issued to acquire those assets, are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

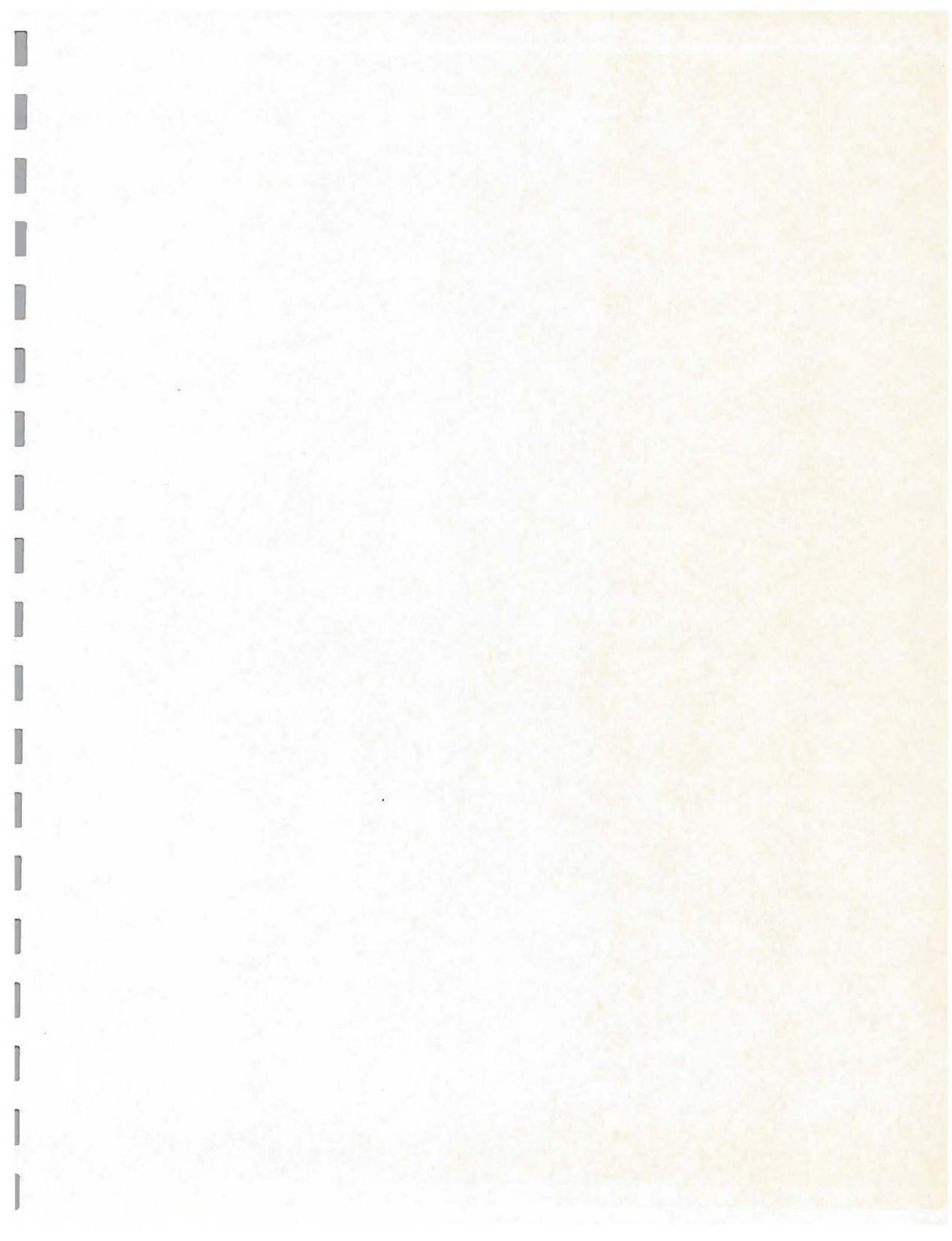
The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

Condensed Statement of Net Assets:

	2007	2006	Change	%
Current assets	\$ 10,183,142	\$ 6,220,538	\$ 3,962,604	64%
Noncurrent assets	22,701,411	20,422,060	2,279,351	11%
Total assets	32,884,553	26,642,598	6,241,955	23%
Current liabilities outstanding	8,364,397	5,890,294	2,474,103	42%
Noncurrent liabilities outstanding	13,289,194	8,801,795	4,487,399	51%
Total liabilities	21,653,591	14,692,089	6,961,502	47%
Net assets/(liabilities):				
Invested in capital assets, net of related debt	24,122,670	16,382,060	7,740,610	47%
Restricted	5,298,149	6,132,423	(834,274)	(14%)
Unrestricted	(18,189,857)	(11,011,974)	(7,177,883)	65%
Total net assets	\$ 11,230,962	\$ 11,950,509	\$ (719,547)	(6%)

Changes in Net Assets

The Municipality's net deficit increased by \$7.1 millions. Approximately 12 percent of the Municipality's total revenues came from taxes, while 100 percent resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. The Municipality's expenses cover a range of services. As can be observed in next page the most significant expenses are those related with Public Safety, Culture and Recreation, Public Works and Interests which increased in 152%, 252%, 391% and 117% respectively.



MANAGEMENT DISCUSSION AND ANALYSIS

The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

<u>Condensed Statement of Activities:</u>	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program revenues:				
Capital grants and contributions	\$ 1,798,314	\$ -	\$ 1,798,314	100%
General revenues:				
Property taxes	2,265,396	2,583,385	(317,989)	(12%)
Municipal license taxes	657,747	566,843	90,904	16%
Licenses, permits and other local taxes	522,715	6,887,936	(6,365,221)	(92%)
Grants and contributions not restricted to specific programs	8,858,460	4,309,855	4,548,605	106%
Interests, fines and penalties	188,525	92,017	96,508	105%
Miscellaneous	1,160,891	91,761	1,069,130	1165%
Total revenues	<u>15,452,048</u>	<u>14,531,797</u>	<u>920,251</u>	<u>6%</u>
Expenses:				
General government	4,120,553	7,938,190	(3,817,637)	(48%)
Public safety	560,343	34,557	525,786	1522%
Culture and recreation	843,829	239,531	604,298	252%
Health	1,774,710	823,311	951,399	116%
Public Works	6,618,140	1,348,596	5,269,544	391%
Capital Outlays	370,482		370,482	370%
Community development	1,465,983	1,013,004	452,979	45%
Interest on bonds and notes	734,760	339,093	395,667	117%
Total expenses	<u>16,488,800</u>	<u>11,736,282</u>	<u>4,752,518</u>	<u>40%</u>
Net increase in net assets	(1,036,752)	2,795,515	(3,832,267)	(137%)
Net assets - at beginning of year	<u>11,950,509</u>	<u>9,239,788</u>	<u>2,710,721</u>	<u>29%</u>
Prior Period Adjustment	317,205	(84,794)	401,999	474%
Net assets - beginning of year as restated	<u>12,267,714</u>	<u>9,154,994</u>	<u>3,112,720</u>	<u>34%</u>
Net assets - at end of year	<u>\$ 11,230,962</u>	<u>\$ 11,950,509</u>	<u>\$ (719,547)</u>	<u>(6%)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

As discussed 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 balance of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

<u>Condensed Balance Sheet - Governmental funds:</u>	<u>2007</u>	<u>2006</u>	<u>Change</u>
Total assets - major funds	\$ 10,967,225	\$ 6,247,343	\$ 4,719,882
Total assets - nonmajor funds	2,257,366	3,034,517	(777,151)
Total assets	<u>13,224,591</u>	<u>9,281,860</u>	<u>3,942,731</u>
Total liabilities - major funds	9,596,253	5,214,125	4,382,128
Total liabilities - nonmajor funds	1,385,593	1,756,148	(370,555)
Total liabilities	<u>10,981,846</u>	<u>6,970,273</u>	<u>4,011,573</u>
Fund Balances:			
Reserved - major funds	4,426,376	4,140,628	285,748
Reserved - nonmajor funds	871,773	1,278,369	(406,596)
Unreserved - nonmajor funds	-	-	-
Unreserved - major funds	(3,055,404)	(3,107,410)	52,006
Total net assets	<u>\$ 2,242,745</u>	<u>\$ 2,311,587</u>	<u>\$ (68,842)</u>
 <u>Condensed Statement of Operations - Governmental funds:</u>			
Total revenues - major funds	\$ 12,752,681	\$ 11,930,012	\$ 822,669
Total revenues - nonmajor funds	2,699,367	2,601,785	97,582
Total revenues	<u>15,452,048</u>	<u>14,531,797</u>	<u>920,251</u>
Total expenditures - major funds	11,871,068	11,245,776	625,292
Total expenditures - nonmajor	3,976,142	3,684,807	291,335
Total expenditures	<u>15,847,210</u>	<u>14,930,583</u>	<u>916,627</u>
Other financing sources (uses) - major fund (excluding interfund)	-	1,248,000	(1,248,000)
Net change in fund balances	<u>\$ (395,162)</u>	<u>\$ 849,214</u>	<u>\$ (1,244,376)</u>

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$33,571,864 at June 30, 2007. The related accumulated depreciation and amortization of capital assets amounted to \$15,674,228 at June 30, 2007. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems and similar items.

Actual costs incurred to purchase or construct capital assets were \$6,401,783 for the year ended June 30, 2007. Depreciation and amortization charges for the year totaled \$1,116,142.

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. 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.

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by the Government Development Bank for Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax Levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Mr. Norberto Acevedo Vales, at Department of Finance, PO Box 1544 Camuy, Puerto Rico, 00539, or call (787) 898-2160.

**Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Net Assets
June 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 7,155,751
Cash with Fiscal Agent	1,037,774
Accounts Receivable:	
Property Tax Receivable	137,549
Municipal License Taxes	64,850
Other	1,191
Due from Governmental Entities	1,786,027
Capital Assets	
Land, improvements, and construction in progress	
other capital assets, net of depreciation of \$15,674,228	<u>22,701,411</u>
Total Assets	<u>\$ 32,884,553</u>
 <u>Liabilities and Net Assets</u>	
<u>Liabilities</u>	
Accounts Payable & Accrued Liabilities	\$ 672,939
Due to Governmental Entities	1,840,721
Deferred Revenues:	
Municipal License Taxes	465,433
Federal Grant	4,315,181
Bond Payable	646,123
Noncurrent liabilities:	
Due within one year	424,000
Due in more than one year	<u>13,289,194</u>
Total Liabilities	<u>21,653,591</u>
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	24,122,670
Restricted for:	
Debt Service	5,129,871
Federal and state grant funds	168,278
Unrestricted (deficit)	<u>(18,189,857)</u>
Total net assets	<u>11,230,962</u>
Total liabilities and Net assets	<u>\$ 32,884,553</u>

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

**Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Activities
For the year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government	\$ 4,120,553	\$ -	\$ -	\$ -	\$ (4,120,553)
Culture and Recreation	843,829	-	-	-	(843,829)
Public Safety	560,343	-	-	-	(560,343)
Health & Welfare	1,774,710	-	974,731	-	(799,979)
Public Works	6,618,140	-	-	-	(6,618,140)
Capital Outlays	370,482	-	-	2,995,676	2,625,194
Interest on long-term debt	734,760	-	-	148,534	(586,226)
Community Development	1,465,983	-	823,583	-	(642,400)
Total Governmental Activities	\$ 16,488,800	\$ -	\$ 1,798,314	\$ 3,144,210	(11,546,276)

General Revenues:

Property Tax	2,265,396
Municipal License Taxes	657,747
Licenses, Permits and other local taxes	492,647
Grants and Contributions not restricted to specific programs	5,862,784
Fines and Forfeitures	2,577
Rent of Property	27,491
Interests and Investments Earnings	39,991
Miscellaneous	1,160,891
Total general revenues	10,509,524
Change in net assets	(1,036,752)
Net Assets - beginning	11,950,509
Prior-Period Adjustment	317,205
Net Assets-restated	12,267,714
Net Assets - ending	\$ 11,230,962

The notes to the financial statement are an integral part of this statement

**Commonwealth of Puerto Rico
Municipality of Camuy
Balance Sheet
Governmental Funds
June 30, 2007**

	Major Funds					Total Governmental Funds
	General Fund	Joint Resolutions	Loan Guarantee Fund	Special Projects Fund	Other Non-Major Funds	
Assets						
Cash and cash equivalents	\$ 305,220	\$ 100,390	\$ 4,390,795	\$ 1,824,886	\$ 534,460	\$ 7,155,751
Cash with Fiscal Agent					1,037,774	1,037,774
Receivables:						
Municipal License Taxes	64,850				-	64,850
Property Tax	127,589				9,960	137,549
Other					1,191	1,191
Due from Governmental Entities	1,184,282				601,745	1,786,027
Due from other funds	424,244	2,544,969			72,236	3,041,449
Total Assets	\$ 2,106,185	\$ 2,645,359	\$ 4,390,795	\$ 1,824,886	\$ 2,257,366	\$ 13,224,591
Liabilities and Fund Balances						
Liabilities						
Accounts Payable & Accrued Liabilities	\$ 238,230	\$ 36,852	\$ -	\$ 155,551	\$ 242,306	\$ 672,939
Due to Governmental Entities	1,840,721	-	-	-	-	1,840,721
Deferred Revenues:						
Municipal License Taxes	465,433	-	-	-	-	465,433
Federal Government	-	-	4,242,261	-	72,920	4,315,181
Mature Bonds Payable	-	-	-	-	646,123	646,123
Due to Other Funds	2,617,205	-	-	-	424,244	3,041,449
Total Liabilities	5,161,589	36,852	4,242,261	155,551	1,385,593	10,981,846
Fund Balances:						
Reserved for:						
Other purposes	-	2,608,507	148,534	1,669,335	703,495	5,129,871
Debt Service	-	-	-	-	168,278	168,278
Unreserved:						
Undesignated (deficit)	(3,055,404)	-	-	-	-	(3,055,404)
Total Fund Balances (Deficit)	(3,055,404)	2,608,507	148,534	1,669,335	871,773	2,242,745
Total liabilities and Fund balances	\$ 2,106,185	\$ 2,645,359	\$ 4,390,795	\$ 1,824,886	\$ 2,257,366	

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the statement of net assets 22,701,411
Other long-term liability are not available to pay current period expenditures and therefore are offset by

Long-Term liabilities are not due and payable in the current period, and therefore, are not reported in the funds (13,713,194)

Net assets of governmental activities **\$ 11,230,962**

The notes to the 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
For the year ended June 30, 2007**

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Joint Resolutions	Loan Guarantee Fund	Special Projects Fund	Other Non-Major Funds	
Revenues:						
Property Tax	\$ 1,805,436	\$ -	\$ -	\$ -	\$ 459,960	\$ 2,265,396
Municipal License Taxes	657,747	-	-	-	-	657,747
Licenses, Permits and other local taxes	492,647	-	-	-	-	492,647
Intergovernmental	5,862,784	490,738	-	2,084,339	420,599	8,858,460
Charges for services	5,851	-	-	-	-	5,851
Rent of Property	27,491	-	-	-	-	27,491
Fines and forfeitures	2,577	-	-	-	-	2,577
Interests	19,497	-	148,534	-	20,494	188,525
Federal Grants	-	-	-	-	1,798,314	1,798,314
Miscellaneous	1,155,040	-	-	-	-	1,155,040
Total Revenues	10,029,070	490,738	148,534	2,084,339	2,699,367	15,452,048
Expenditures:						
General Government	4,827,423	-	-	-	221,502	5,048,925
Culture and Recreation	540,084	-	-	-	-	540,084
Public Safety	476,350	-	-	-	32,669	509,019
Health & Welfare	1,337,473	-	-	-	1,089,040	2,426,513
Public Works	2,251,875	-	-	-	286,411	2,538,286
Community Development	-	-	-	-	823,583	823,583
Capital Outlays	-	2,022,859	-	415,004	363,395	2,801,258
Debt Service:						
Principal	-	-	-	-	424,000	424,000
Interests	-	-	-	-	735,542	735,542
Total Expenditures	9,433,205	2,022,859	-	415,004	3,976,142	15,847,210
Excess (Deficiency) of revenues over expenditures	595,865	(1,532,121)	148,534	1,669,335	(1,276,775)	(395,162)
Other Financing Sources (Uses):						
Operating Transfer - In	29,216	-	-	-	573,075	602,291
Operating Transfer - Out	(573,075)	-	-	-	(29,216)	(602,291)
	(543,859)	-	-	-	543,859	-
Net change in fund balances	52,006	(1,532,121)	148,534	1,669,335	(732,916)	(395,162)
Fund Balance, beginning	(3,107,410)	4,140,628	-	-	1,287,484	2,320,702
Prior-Period Adjustment	-	-	-	-	317,205	317,205
Fund Balance Restated	(3,107,410)	4,140,628	-	-	1,604,689	2,637,907
Fund Balance, ending	(3,055,404)	\$ 2,608,507	\$ 148,534	\$ 1,669,335	\$ 871,773	\$ 2,242,745

OK
28/03/2006

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

**Commonwealth of Puerto Rico
Municipality of Camuy
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balance - Governmental Funds to the Statement of Activities
June 30, 2007**

Governmental Activities amounts reported in the statement of activities and the Net Change in fund balance reported in the statement of Revenue, Expenditures and changes in Fund Balance - Governmental Funds	<u>\$ (395,162)</u>
 Add(deduct):	
Long-Term Obligations recognized as other financial resources in the Governmental Funds as L.T.D. in Statement of Net Assets	<u>(4,242,260)</u>
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 outlays exceed depreciation and amortization expense	<u>2,704,133</u>
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore are not reported as expenditures in the governmental funds	
Reduction in Expenditures	<u>896,537</u>
Net Change in net assets reported in statement of activities	<u><u>\$ (1,036,752)</u></u>

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
YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Camuy was founded in 1807. The executive governs the Municipality and the legislative branch elected for a four-year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

In June 1999, the Governmental Accounting Standard Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments". This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition, to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality has elected to delay the capitalization of infrastructure.

Financial reporting entity

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

Basis of presentation, measurement focus and basis of accounting

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

Management Discussion and Analysis

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basic financial statements

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

Government-wide statements

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund Statements

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

The Municipality reports the following major governmental funds:

General Fund: is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Joint Resolutions: is the accounting entity in which revenues derived from state grants, in accounted for. State statutes specify the uses and limitations of each special revenue fund.

Loan Guarantee Fund: is the accounting entity in which revenues are derived from federal funds sources related to capital projects, is accounted for. The uses and limitations of this fund are specified by federal statute.

Special Project Fund: is used to account to specific projects to be made by the Municipality.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing Uses) in net current assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related liability is incurred.

Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider has been met and revenue becomes available. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available.

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

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Required Supplementary Information

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

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 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.

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 ten (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 item so far to cause a deficit without imposing taxes or identifying other sources of revenues to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the project, the modified project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any 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 Mayor rejects the budget, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved budget is sent again to the Mayor, which then would have three (3) days to sign and approve it.

If a budget is not adopted prior to the end of the deadlines referred 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 a new budget is approved.

The annual budget may be updated for any estimate revisions as well as year-end encumbrances

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

Budgetary Control (Continue)

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 with a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program 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 a 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 expenditure 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, 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 settling claims and judgment 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 undisbursed balance from the prior year can be carried forward and made available for current spending.

Assets, liabilities and net Assets

1. *Cash, cash equivalents and cash with fiscal agents.*

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

1. Cash, cash equivalents and cash with fiscal agents (Continue)

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

2. Receivables and due from governmental entities

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

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

3. Inter-fund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of 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 from/to other funds".

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

4. *Capital assets (Continued)*

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 urban and economic development function.

5. *Long-term obligations*

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

6. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if: (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of Paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The 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 systems and others). The vacation policy of the Municipality provides for the accumulation of regular vacations and sick leave. Employees at a rate of 1.5 times the overtime worked accumulate compensatory time. All vacations 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.

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ day per month of sick pay and compensatory time up to a maximum of 60 days of vacations.

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 service, 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 and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. *Compensated absences (Continued)*

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

8. *Reservations of Fund balances and Net Assets*

a. Reservations of Fund balances:

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

Debt Service:	Represents net assets available to finance future debt service payments.
Other purposes:	Represent net assets available for specific use and/or legally segregated for other specific future use.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

9. Reservations of Fund balances and Net Assets (Continued)

b. Net assets

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

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

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

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

10. Inter-fund transactions

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

11. Risk financing

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Costs of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2007 amounted to \$200,399. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$177,323 for workers compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Use of estimates

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

13. Future adoption of accounting pronouncements

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

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
43 Financial Reporting for Post employment Benefits Plans Other Than Pension Plans	June 30, 2008
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Reconciliation of Government-Wide and Fund Financial Statements.

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities are reported in the governmental-wide statement of net assets. The two elements of that reconciliation explains that "long-term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds, and that capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follow:

		Total Net Assets <u>Governmental Activities</u>
<u>Net Assets invested in capital assets, net of related debt</u>		
Capital Assets	\$30,788,670	
Deduct:		
Bonds Payable	(6,218,000)	
Notes Payable	<u>(448,000)</u>	\$24,122,670
<u>Assets restricted for Specific purpose</u>		
Fund Balance restricted for specific purpose		5,129,871
<u>Net Assets restricted for Debt Service</u>		
Fund balance restricted for debt service		168,278
<u>Net Assets unrestricted (deficit)</u>		
General Fund – Total fund balance:	\$(3,055,404)	
Deduct:		
Compensated absences	(1,337,952)	
Advances from CRIM	(1,335,242)	
Claims and Judgment	(110,000)	
Others	(8,087,258)	
Section 108	<u>(4,264,000)</u>	<u>(18,189,857)</u>
Total net assets – governmental activities		<u>\$11,230,962</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. The Secretary of Treasury of Puerto Rico in the Municipality's name holds all securities pledged as collateral by the Municipality. At year end the Municipality's bank balance in commercial banks amounts to \$7,155,751.

Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality's bank balance in governmental banks amounts to \$1,037,774.

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2007 follows:

	Commonwealth Entities
PR Power Electric Authority (PREPA)	\$ 1,184,282
	\$1,184,282

2. Amounts due to governmental entities as of June 30, 2007 follows:

	Commonwealth Entities
Puerto Rico Power Electric Authority (PRPEA)	\$1,184,282
Puerto Rico Aqueduct and Sewer Authority (PRASA)	69,733
Administration of General Services (ASG)	88,622
PR Department of Treasury	194,104
Administration of Retirement System	303,980
	\$1,840,721

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non – Major fund (Law 52 Program)	\$ 112,500
General Fund	Non- Major fund (COPS)	3,551
General Fund	Non – Major fund (OMME)	2,084
General Fund	Non – Major fund (CEMAR)	11,636
General Fund	Non – Major fund (SBGP)	31,991
General Fund	Non – Major fund (Child Care)	194,846
General Fund	Non – Major fund (Section 8)	30,803
General Fund	Non – Major fund (USDA)	3,701
General Fund	Non – Major fund (DSF)	8,132
General Fund	Non – Major fund (Law 82)	25,000
Joint		
Resolutions	General Fund	<u>2,544,969</u>
Non – Major fund (Public Works)	General Fund	<u>63,122</u>
Non – Major fund (UMTA)	General Fund	<u>9,114</u>
Total:		<u><u>\$3,041,449</u></u>

2. Operating transfers:

Transfers between individual funds were made for operational purposes. Transfers includes interest earned on restricted cash with fiscal agents in the debt service fund, which is transferred to the general fund; principal and interest payments of general long-term debt transferred from the general fund to the debt service fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General Fund	\$573,075
General Fund	Debt Service	29,016

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE E - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2007 is as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,839,061	-		\$ 3,839,061
Construction in progress	3,971,006	3,155,507	6,161,799	964,714
Total capital assets not being depreciated:	7,810,067	3,155,507	6,161,799	4,803,775
Capital assets, being depreciated:				
Land Improvements	2,123,276	-	-	2,123,276
Buildings, structures and building improvements	7,919,225	6,161,799	-	14,081,024
Infrastructure	13,511,759	-	-	13,511,759
Furniture and Fixtures	1,180,620	30,179	-	1,210,799
Vehicles and Equipment	2,435,201	209,805	-	2,645,006
Total capital assets being depreciated	27,170,081	6,401,783	-	33,571,864
Less accumulated depreciation for:				
Land Improvements	(1,321,912)	(74,050)	-	(1,395,962)
Buildings, structures and building improvements	(2,205,543)	(324,019)	-	(2,529,562)
Infrastructure	(8,738,411)	(511,482)	-	(9,249,893)
Furniture & Fixtures	(853,487)	(43,598)	-	(897,085)
Vehicles and Equipment	(1,438,733)	(162,993)	-	(1,601,726)
Total accumulated depreciation	(14,558,086)	(1,116,142)	-	(15,674,228)
Total capital assets being depreciated, net	12,611,995	5,285,641	-	17,897,636
Governmental activities capital assets, net	\$20,422,062	\$8,441,148	\$6,161,799	\$22,701,411

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE E - CAPITAL ASSETS (Continued)

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

Governmental activities:

General government	\$ 36,344
Culture and Recreation	303,745
Public safety	51,324
Health	74,164
Health & Welfare	8,165
Community development	<u>642,400</u>

Total depreciation expense, governmental activities	<u>\$ 1,116,142</u>
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NOTE F - LONG TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2007:

	Balance at July 1, 2006	Increases	Decreases	Balance at June 30, 2006	Due within one year
General, Special Obligations Bonds and Notes	\$ 6,662,000	\$ -	\$ 444,000	\$ 6,218,000	\$ 424,000
Notes Payable:					
Puerto Rico					
Governmental Bank	448,000	-	-	448,000	-
Advances from CRIM	986,562	-	-	986,562	-
Section 108 Loan	-	4,264,000	-	4,264,000	-
CRIM Delinquent Accounts – Law	348,680	-	-	348,680	-
Compensated Absences	1,368,734	-	30,782	1,337,952	-
Claims and Judgments	110,000	-	-	110,000	-
	<u>\$ 9,923,976</u>	<u>\$ 4,264,000</u>	<u>\$ 474,782</u>	<u>\$ 13,713,194</u>	<u>\$ 424,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE F - LONG TERM DEBT - Continued

2. General and special obligation bonds and other notes.

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2007 amount to \$6,218,000. The Governmental Development Bank of Puerto Rico (GDB) maturing at various dates services all these bonds. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2007 follows:

General Obligations	<u>Outstanding Amount</u>
1996 serial notes, original amount of \$125,000 due in annual installments from \$5,000 to \$10,000 including interests, due in semiannual installments at variable rates not to exceed 6.58% through July 1, 2015.	75,000
2001 serial bonds, original amount of \$1,675,000, due in annual installments ranging from \$25,000 to \$145,000 including interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2026.	1,540,000
2001 serial bonds, original amount of \$445,000 due in annual installments ranging from \$5,000 to \$45,000 including interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2026.	155,000
2005 serial notes, original amount of \$2,950,000 due in annual installments ranging from \$60,000 to \$205,000 including interests, due in semiannual installments at variable rates not to exceed 5% through July 1, 2029.	2,825,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE F - LONG TERM DEBT - Continued

	<u>Outstanding Amount</u>
Special Obligations	
1999 special obligation bonds, original amount of \$505,000 due in annual installments ranging from \$35,000 to \$65,000 including interests, due in semiannual installments at variable rates not to exceed 6.50% (5% at June 30, 2004) through July 1, 2008.	130,000
Public Improvement Bonds	
1995 serial bonds, original amount of \$350,000 due in annual installments ranging from \$10,000 to \$40,000 including interests, due in annual installments at rates not to exceed 6.20% (5.80% at June 30, 2004) through July 1, 2009.	105,000
1998 serial bonds, original amount of \$280,000 due in annual installments ranging from \$7,000 to \$21,000 including interests, due in annual installments at rates not to exceed to 5.25% through July 1, 2019.	194,000
1998 serial bonds, original amount of \$ 310,000, due in annual installments ranging from \$7,000 to \$23,000, including interests, due in annual installments at rates of 5.12 through July 1, 2020.	224,000
2006 serial bonds, original amount of \$ 800,000 due in annual installments ranging from \$95,000 to \$135,000, including interests, due in semiannual installments at rates of 5.33% to 4.73% through July 1, 2020.	705,000
Special Found-Emergency Obligations	
1995 serial bonds, original amount of \$ 400,000 due in annual installments ranging from \$10,000 to \$40,000, including interests, due to semiannual installments at variable rates not to exceed 8%(5% at June 30, 2004) through July 1, 2016.	<u>265,000</u>
Total Bonds Payable	<u>\$ 6,218,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE F - LONG TERM DEBT - Continued

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2007 follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 424,000	\$ 387,703
2009	441,000	345,876
2010	322,000	325,048
2011	303,000	307,620
2012	368,713	290,088
2013-2017	1,271,000	1,329,532
2018-2022	1,147,000	724,938
2023-2027	1,361,288	428,188
2028-2032	580,000	58,175
Totals	<u>\$6,218,000</u>	<u>\$4,197,168</u>

3. **Advances from CRIM** – This amount represents the balance owed to CRIM as of June 30, 2007 and will be repaid through a financing obtained by the CRIM with GDB.
4. **Compensated absences** – The government-wide statement of net assets includes approximately \$1,337,952 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **Note Payable to CRIM** – 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 for a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlement 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 interests from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interests 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 at June 30, 2007.

6. **Loan Guarantee (HUD)** – on August 29, 2006 The Municipality entered into a agreement with the U.S. Department of Housing and Urban Development (HUD) for loan guarantee assistance under the section 108 of the Housing and Community Development Act of 1974, as amended, 42

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE F - LONG TERM DEBT - Continued

6. Loan Guarantee (HUD) (Continue)

U.S.C. §5308 for the original amount of \$4,264,000. Loan payments mature every February 1 and October 1 of every fiscal year, which interest is approximately 4.0% annually. These funds are pledged with Municipality's property or the HUD can use the CDBG to pay-off the related payments mentioned above.

NOTE G - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. The tax rates in force as of June 30, 2007 are 8.83% for real property (of which 8.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.83% for personal property (of which 6.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 8.00% and 6.00%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6.00% on real property and 4.00% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 2.00% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net receivable from the CRIM of \$127,589 resulting from the final settlement for fiscal year 2006-2007. The total amount is recorded as a receivable in the government-wide statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE H – MUNICIPAL LICENSE TAXES

The Municipality, to all organizations or entities subject to tax doing business in the Municipality's location except for entities totally or partially exempt, assesses municipal License taxes annually. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2007 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Non-financial business – 0.50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year, if the taxpayer does not pay the full amount due on April 15 of each year, applying the 5% discount. A discount of 5% is allowed when full payment is made on or before the next five (5) working days after April 15. Municipal license tax returns collected prior to June 30, 2007, but pertaining to the next year is recorded as deferred revenues. Municipal License tax collected in advance for the next fiscal year 2007-2008 amounted \$465,433 as of June 30, 2007.

NOTE I - INTERGOVERNMENTAL REVENUES

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

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$1,157,864
Compensation from the Department of Treasury for the concept of the half-percent of the Christmas Bonus Payment	131,044
Compensation from the Municipal Revenue Collection Center from the State subsidy and Lottery Fees	4,573,876
Total	\$5,862,784

NOTE J - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE J - RETIREMENT PLAN (CONTINUED)

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

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

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

The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE K - COMMITMENTS

1. *Operating leases*

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

NOTE L - CONTINGENCIES

1. *Federal and State grants*

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

2. *Judgments and legal claims*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of one case settled subsequent to June 30, 2007 and a legal claim in which an unfavorable outcome is probable and a reasonable estimate of the amount was determined, and not to be covered by insurance, the Municipality accrued \$110,000 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE M – FUND BALANCE RESTATEMENT

The beginning fund balance of the other governmental funds was restated to correct an overstatement of the Deferred revenues in the total amount of \$317,205. The following schedule reconciles the fund balance at June 30, 2007 as previously reported to the beginning fund balance, as restated:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE M – FUND BALANCE RESTATEMENT (CONTINUED)

Fund	Prior Period Adjustments		Balance at Beginning of Year as Restated
	Balance at Beginning of Year As previously Reported	Correction Errors	
Other Governmental Funds	\$1,287,484	\$317,205	\$1,604,689

NOTE N – SUBSEQUENT EVENTS

During the fiscal year 2008-2009, the State Legislative Body and the Governor approved the Law 80, which the State collect a half-percent (.5%) of the Municipal Sales Tax previously collected by the Municipality and creates three funds to be used by the Municipality and the State Legislative Body. The amount to be provided to the Municipality will be established according the law provisions. Also, the Municipality approved an amended Ordinance according the legislation mentioned above.

Commonwealth of Puerto Rico
Municipality of Camuy
Budgetary Comparison Schedule - General Fund
(See Notes to Budgetary Comparison Schedule)
June 30, 2007

	<u>Budgeted Amounts</u>		Actual amounts (budgetary basis)	Variance with final budget over (under)
	<u>Original</u>	<u>Final</u>	(See Note 1)	
Revenues:				
Property Tax	\$ 1,775,758	\$ 1,775,758	\$ 1,775,758	\$ -
Municipal License Taxes	551,575	551,575	657,747	106,172
Licenses, Permits and other local taxes	608,450	608,450	492,647	(115,803)
Intergovernmental	5,390,340	5,390,340	5,782,727	392,387
Charges for services	4,500	4,500	5,851	1,351
Rent of Property	26,000	26,000	27,491	1,491
Fines and forfeitures	5,000	5,000	2,577	(2,423)
Interests	5,000	5,000	48,713	43,713
Miscellaneous	766,000	766,000	782,016	16,016
Total Revenues	<u>\$ 9,132,623</u>	<u>\$ 9,132,623</u>	<u>\$ 9,575,527</u>	<u>\$ 442,904</u>
Expenditures:				
General Government	\$ 3,565,892	\$ 3,520,438	\$ 3,403,291	\$ 117,147
Culture and Recreation	491,954	542,462	540,084	2,378
Public Safety	567,543	481,515	476,350	5,165
Health & Welfare	1,508,464	1,340,043	1,337,473	2,570
Public Works	2,046,349	2,295,744	2,251,875	43,869
Transfers to Other Funds	952,421	952,421	952,421	-
Total Expenditures	<u>9,132,623</u>	<u>9,132,623</u>	<u>8,961,494</u>	<u>171,129</u>
Excess (Deficiency) of revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 614,033</u>	<u>\$ 614,033</u>
Explanation of Differences:				
Sources/in-flow of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 9,575,527
Differences - budget basis to GAAP:				
Prior year receivables recognized for financial purposes				51,303
Special funds recognized to financial statement purposes and not for budgetary basis				373,024
Operating Transfer In recorded for financial statements purposes				<u>29,216</u>
Total Revenues as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 10,029,070</u>
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 8,961,494
Differences - budget basis to GAAP:				
Non-budgeted expenditures				657,146
Prior year expenditures recognized for financial purposes				387,640
Non-budgeted operating transfer - out				<u>(573,075)</u>
Total expenditures and other financial uses as report on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 9,433,205</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor Pass/ Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursements Expenditures</u>
U. S. Department of Housing and Urban Development		
Direct Programs		
Housing Choice Voucher	14.871	\$ 734,131
Indirect Program:		
Pass-through Puerto Rico Office of Municipal Affairs State Block Grants Program (SBGP)	14.228	<u>823,583</u>
Subtotal-HUD		1,557,714
U.S. Department of Health and Human Services (HHS)		
Passed through Administration of Families and Children- Child Care and Deveelopment Grant	93.575	<u>242,202</u>
Sub-total HHS		242,202
U.S. Department of Agriculture		
Pass-through Education Department Child and Adult Care Food Programs	10.558	<u>15,348</u>
Sub-total U.S. Department of Agriculture		15,348
Total		<u><u>\$ 1,815,264</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

**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, 2007, and have issued our report thereon dated November 13, 2007. I conducted my 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 no instances of noncompliance that are to be reported under Government Auditing Standards.

I noted other matters that I reported to management of the Municipality of Camuy in a separate letter dated November 30, 2007

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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies that adversely affects the the Municipality of Camuy ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of Camuy financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Camuy internal control.

A material weakness is a significant deficiency, or combination of material deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality of Camuy internal control.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weaknesses, as defined above.

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.

Gil Alberto Ortiz Cabrera
CPA Gil Alberto Ortiz Cabrera
License 1332
Stamp # 2224017 was affixed
to the original report
San Juan, Puerto Rico 1332
November 13, 2007



**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, 2007. 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.

In my opinion, 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, 2007.

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, but not for the purpose of expressing an opinion in the effectiveness of internal control over compliance.. Accordingly I do not express an opinion on the effectiveness of the Municipality of Camuy internal control over compliance.

**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)**

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program in a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material deficiency is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

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 Gilberto Ortiz Cabrera
License 1332
Stamp 2224018 was affixed
to the original report
Dorado, Puerto Rico
November 13, 2007



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Summary of Auditor's Result

Financial Statements

Type of auditor's report issued: unqualified opinion
Internal Control over financial reporting:

Material weakness (es) identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:

Material weakness (es) identified? Yes No

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
14.871	Housing Choce Voucher

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

Auditee qualified as low risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2007**

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 and no findings and questioned costs were detected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 04-5 The federal program office does not maintain a physical inventory of the equipment acquired	Condition corrected
Section 8 CFDA No. 14.855	Condition 04-6 The SBGP do not minimize the time elapsing	Condition corrected