

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE COMERIO**

**AUDITORIA 2006-2007**

**30 DE JUNIO DE 2007**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2007**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2007**

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

*Carlos R. Diaz Negrón*

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants  
Puerto Rico Society of Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Comerío  
Comerío, Puerto Rico**

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Comerío** as of and for the year ended June 30, 2007 which collectively comprise the basic financial statements as listed in the 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 did not audit the financial statements of the business-type activities. Those statements were audited by other auditors whose report has been furnish to me, and my opinion, insofar as it relates to the amounts included for Río Plata Development, is based solely on the report of the other auditors.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Comerío** as of June 30, 2007, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

**Independent Auditor's Report (Continued):**

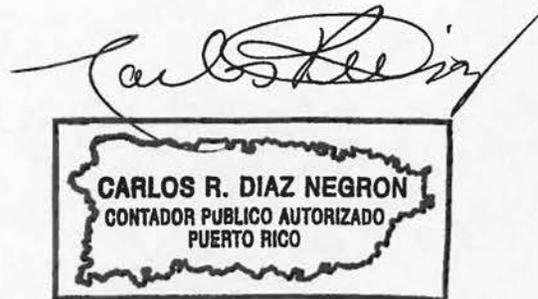
In accordance with Government Auditing Standards, I have also issued a report dated October 26, 2007, in my consideration of Municipality of Comerío's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts grants agreements and other matters. The purposes of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Comerío's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of Municipality of Comerío. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 26, 2007  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2010



The stamp No. 2256898 of the Puerto Rico Society of Certified Public Accountants was affixed to then original of this report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2007**

**INTRODUCTION**

The following discussion presents an overview of the financial position and financial activities of the Municipality of Comerio (The Municipality) for the year ended June 30, 2007. This discussion was prepared by the Municipality management and should be read in conjunction with the financial statements and notes thereto, which follow.

**FINANCIAL HIGHLIGHTS**

The financial position of the Municipality remains strong at June 30, 2007, with total assets of \$49,467,507, total liabilities of \$7,504,294, and total net assets of \$41,963,213. Municipality net assets increased \$3,482,615 in comparison with June 30, 2006 balance of \$38,480,424. An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement.

Condensed financial statements for the Municipality at June 30, 2007.

**Condensed Statement of Net Assets**

	<u>2006</u>	<u>2007</u>
<b>Assets</b>		
Capital Assets	\$33,706,377	\$40,208,392
Other Assets	10,728,997	9,259,115
	44,435,374	49,467,507
<b>Liabilities</b>		
Long-Term Debt	4,696,544	5,207,427
Other Liabilities	1,278,406	2,296,867
	5,974,950	7,405,294
<b>Net Assets</b>		
Invested in Capital Assets	30,695,844	\$37,103,652
Restricted for Debt Service	947,741	552,242
Restricted for State and Federal Programs	5,706,196	-0-
Replacement and Other	947,805	924,219
Unrestricted	182,838	3,383,100
	\$38,480,424	\$41,963,213

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**CONDENSED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

	<u>2006</u>	<u>2007</u>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 527,775	\$ 576,386
Operating Grants	2,671,527	1,864,802
Capital Grants	1,877,213	5,034,707
General Revenue:		
Property Taxes	933,865	1,019,228
Municipal Tax	389,695	433,104
Sales Tax	-0-	183,160
Grants and Entitlements	6,511,770	8,689,434
Licenses and Permits	231,128	366,824
Interest and Others	829,089	831,522
	13,972,062	18,999,167
<b>Expenditures</b>		
General Administration	6,491,680	7,207,983
Public Safety	600,936	590,958
Education, Culture and Recreational	385,729	486,607
Public Works and Sanitation	1,760,028	4,443,217
Health and Welfare	1,818,315	1,817,163
Public Relation	280,765	320,266
Interest	120,113	93,634
Housing	559,240	556,550
	12,016,806	15,516,378
<b>Changes in Net Assets</b>	1,955,256	3,482,789
<b>Net Assets at beginning</b>	36,525,168	38,480,424
<b>Net Assets at end</b>	\$38,480,424	\$41,963,213

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2007**

**USING THE FINANCIAL STATEMENTS**

The Municipality's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, Financial Statements and Management's Discussion and Analysis for State and Local Governments. The financial statement presentation required by GASB statement no. 34 provides a comprehensive, entity-wide perspective of the Municipality's assets, liabilities, net assets, revenues, expenditures, changes in net assets and cash flows.

The financial statements report information of the Municipality's as a whole and include the financial results of Rio Plata Development, a Business Type Division of the Municipality.

**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). This report also contains additional required supplementary information (budgetary schedules) 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2007**

**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 mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture, recreation 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.

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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2007**

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 expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. 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) the debt service fund, (3) bond fund and (4) special communities trust 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.

**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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2007**

**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 condition and maintenance of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

**Statement of Net Assets**

The statement of net assets presents the assets, liabilities and net assets of the Municipality as of the fiscal year ended June 30, 2007. The net assets are displayed in three parts, invested in capital assets, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes. The statement of net assets, along with the Municipality's basic financial statements, is prepared under the accrual basis of accounting, whereby revenues are recognized when realized and expenses are recorded when the service or good is received, regardless of when the cash is exchanged.

Cash and cash equivalents represents 4% of total assets while investment in certificates of deposit represents 7.8% of it. Capital assets amount to 81.2% of total assets. The other 7% represents receivables, restricted cash and cash with fiscal agent.

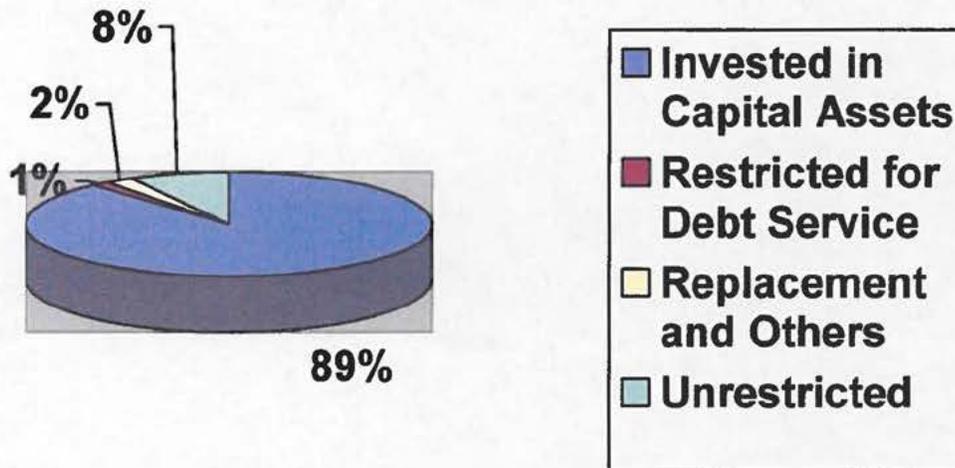
Municipality's cash and cash equivalents increased from \$1,199,037 at June 30, 2006 to \$1,998,425 at June 30, 2007. Capital Assets increased from \$33,706,377 to \$40,208,392 for the same period.

Current liabilities consists primary of accounts payable and accrued expenses which represent 17.6% of total liabilities. Long term debt represents 69.4% of total liabilities.

Net assets represent the residual interest in the Municipality's assets after liabilities are deducted.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2007**

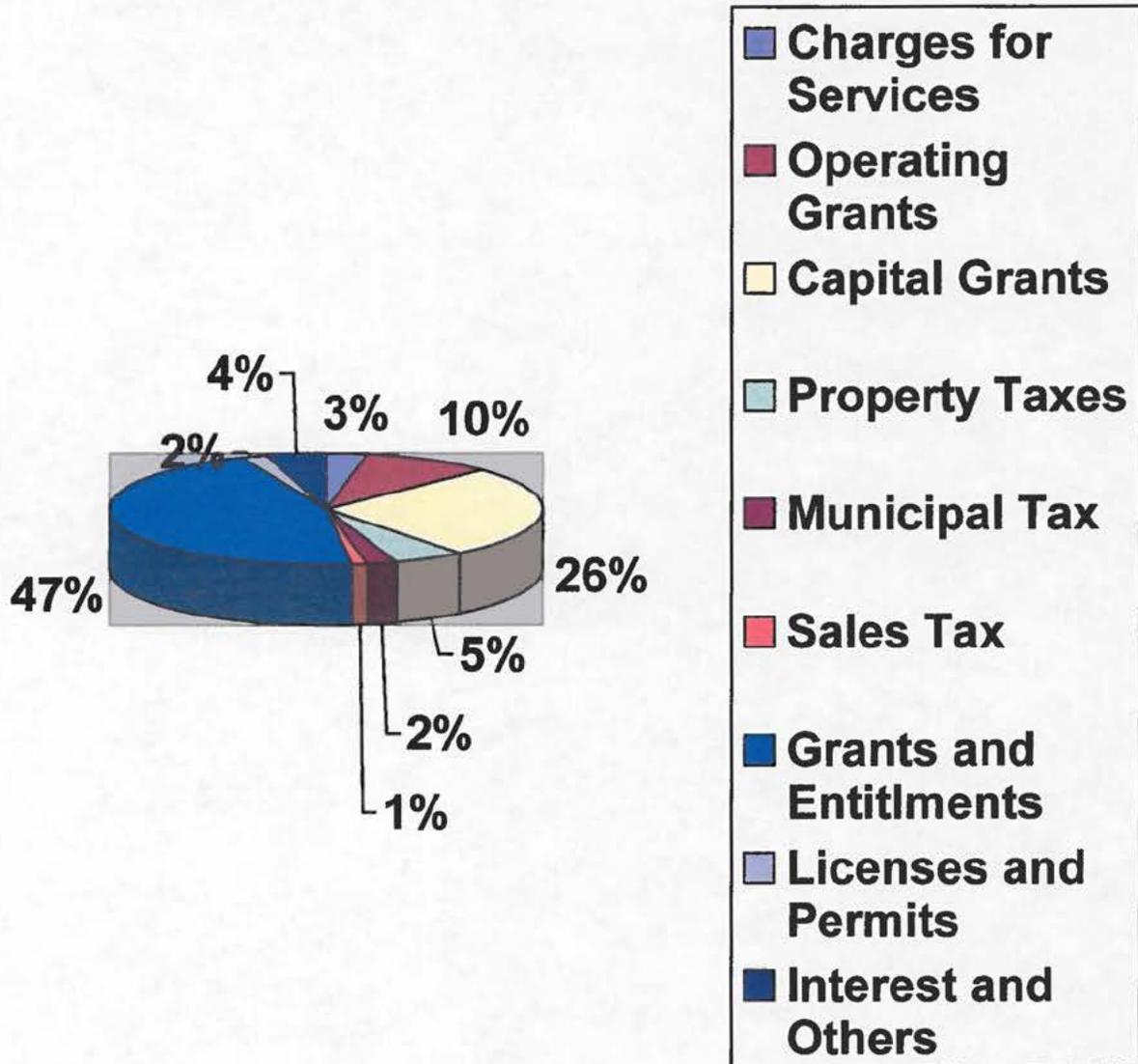
**Net Assets**



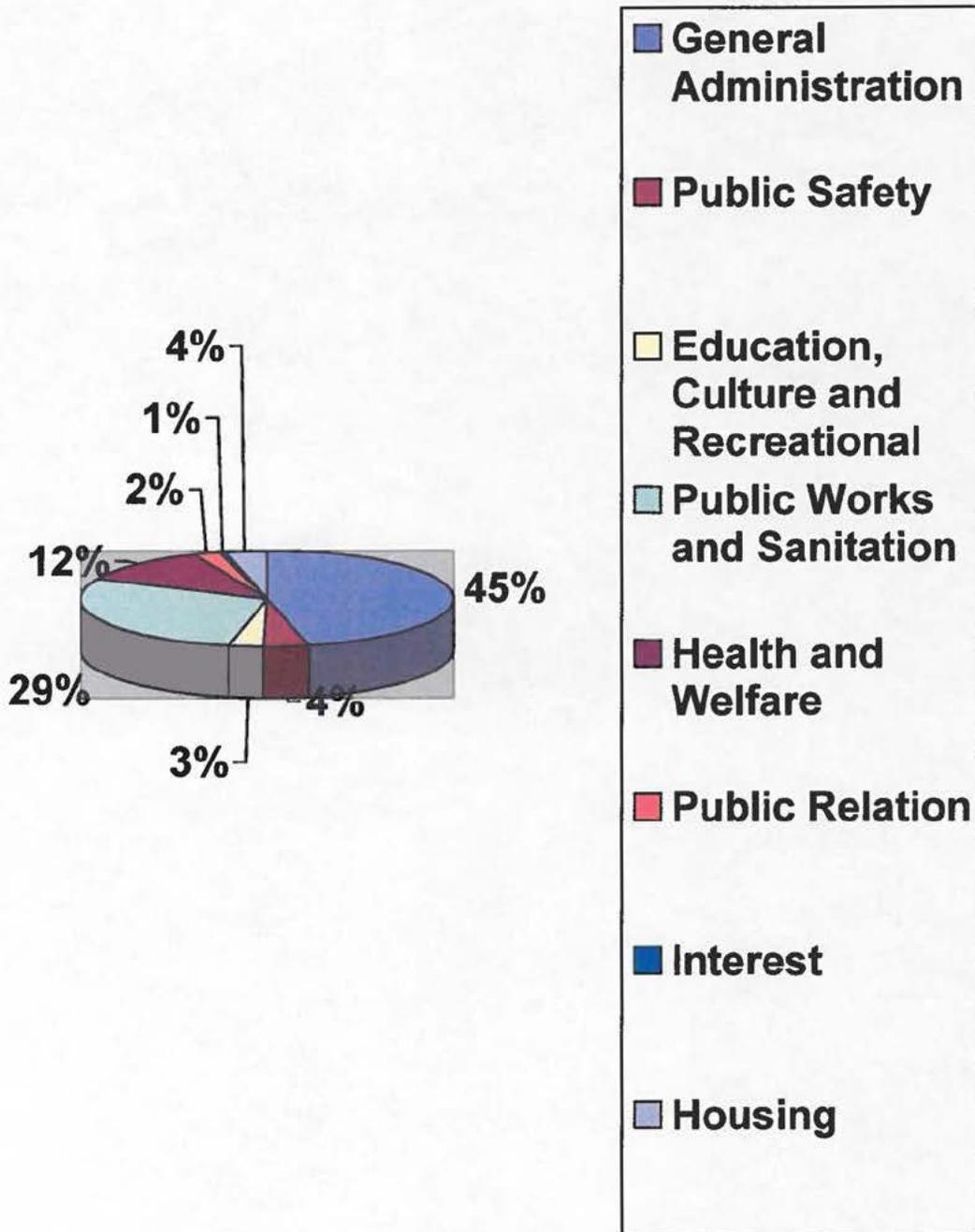
As of June 30, 2007, net assets amounted to \$41,963,213. Net assets invested in capital assets amounted to \$37,010,652 (89%). Restricted net assets and unrestricted net assets amounted to \$1,476,461 (3%) and \$33,383,100 (8%), respectively.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERÍO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2007**

The following illustrations demonstrate the Municipality's major sources of revenues and expenses.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERÍO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2007**



**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2007**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,991,621	\$ 6,804	\$ 1,998,425
Cash with fiscal agent	625,732		625,732
Investment in certificates of deposit	3,875,000		3,875,000
Accounts receivable other agencies	1,139,005		1,139,005
Other receivables	651,783	4,954	656,737
Restricted cash		964,216	964,216
Capital assets, net	<u>39,057,607</u>	<u>1,150,785</u>	<u>40,208,392</u>
<b>Total Assets</b>	<u>47,340,748</u>	<u>2,126,759</u>	<u>49,467,507</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	1,279,730	45,113	1,324,843
Deferred revenue	723,935		723,935
Deposits	59,499	14,446	73,945
Due to other agencies	174,144		174,144
Long-term debt:			
Due within one year	447,442	78,814	526,256
Due in more than one year	<u>3,530,245</u>	<u>1,150,926</u>	<u>4,681,171</u>
<b>Total Liabilities</b>	<u>6,214,995</u>	<u>1,289,299</u>	<u>7,504,294</u>
Invested in capital assets, net of related liabilities	37,182,607	(78,955)	37,103,652
Restricted for:			
Debt service	552,242		552,242
Replacements and other		924,219	924,219
Unrestricted	<u>3,390,904</u>	<u>(7,804)</u>	<u>3,383,100</u>
<b>Total Net Assets</b>	<u>\$41,125,753</u>	<u>\$ 837,460</u>	<u>\$41,963,213</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ 7,207,983		\$ 546,818		\$(6,661,165)
Public safety	590,958		73,914		(517,044)
Education, culture and recreational	486,607		8,172		(478,435)
Public works and sanitation	4,443,217	\$ 38,155		\$5,034,707	629,645
Health and welfare	1,817,163		1,235,898		(581,265)
Public relations	320,266				(320,266)
Interest	93,634				(93,634)
Total governmental activities	<u>14,959,828</u>	<u>38,155</u>	<u>1,864,802</u>	<u>5,034,707</u>	<u>(8,022,164)</u>
Business type-activities:					
Housing	<u>556,550</u>	<u>538,231</u>			<u>(18,319)</u>
Total	<u>\$15,516,378</u>	<u>\$576,386</u>	<u>\$1,864,802</u>	<u>\$5,034,707</u>	<u>\$(8,040,483)</u>

(Continue)

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERÍO  
PROPERTY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u><b>Business-type Activities</b></u> <u><b>Rio Plata Development</b></u>
<b>Cash flows from operating activities:</b>	
<b>Receipts:</b>	
Rental receipts	\$514,534
Interest receipts	19,879
Other operating receipts	<u>816</u>
Total receipts	<u>535,229</u>
<b>Disbursements:</b>	
Administrative	50,618
Management fee	41,400
Utilities	10,008
Salaries and wages	121,515
Operating and maintenance	81,320
Property insurance	11,253
Miscellaneous taxes and insurance	11,347
Interest on first mortgage	<u>101,308</u>
Total disbursements	<u>428,769</u>
<b>Net cash provided by operating activities</b>	<u><b>106,460</b></u>
<b>Cash flows from investing activities:</b>	
Net deposits to the reserve for replacement account	(48,490)
Net withdrawals of reserve for replacement account	33,194
Net deposits to the residual receipts account	(296)
Net purchase of fixed assets	<u>(33,194)</u>
<b>Net cash used in investing activities</b>	<u><b>\$ (48,792)</b></u>

(Continue)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERÍO  
PROPERTY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Business types tunnel Rio Plata Development</b>
<b>Cash flows from operating activities:</b>	
Principal payments- first mortgage	\$ (71,929)
<b>Net cash used in financing activities</b>	<u>(71,929)</u>
<b>Net decrease in cash</b>	(14,261)
<b>Cash at beginning of year</b>	<u>21,065</u>
<b>Cash at end of year</b>	<u>\$ 6,804</u>
<b>Reconciliation of change in total net assets From operation to net cash provided by operating activities:</b>	
Change in total net assets from operations	\$ (18,319)
<b>Adjustment to reconcile change in total net assets form operations to net cash provided by operating activities:</b>	
Depreciation expense	113,924
Allowance for doubtful accounts	2,371
<b>(Increase) decrease in current assets and Increase (decrease) in current liabilities:</b>	
Tenant accounts receivable	(3,002)
Cash restricted for tenant security deposits	(813)
Account payable	23,467
Accrued liabilities	(11,981)
Tenant security deposits held in trust	<u>813</u>
<b>Net cash provided by operating activities</b>	<u>\$ 106,460</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2007**

	<b>MAJOR FUNDS</b>					<b>TOTAL GOVERNMENTAL FUNDS</b>
	<b>GENERAL FUND</b>	<b>DEBT SERVICE FUND</b>	<b>BONDS FUND</b>	<b>SPECIAL COMMUNITIES TRUST FUND</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	
<b>Cash:</b>						
Cash in bank	\$1,140,255			\$ 4,955	\$ 846,411	\$ 1,991,621
Cash with fiscal agent		\$ 298,324			327,408	625,732
Investment in saving certificates	200,000		\$1,225,000	2,250,000	200,000	3,875,000
<b>Receivables:</b>						
Amount due from:						
Property taxes	532,793	118,990				651,783
Other governmental agencies	240,020				898,985	1,139,005
Other funds	<u>1,138,086</u>				<u>765,095</u>	<u>1,903,181</u>
<b>Total Assets</b>	<u>\$3,251,154</u>	<u>\$ 417,314</u>	<u>\$1,225,000</u>	<u>\$2,254,955</u>	<u>\$3,037,899</u>	<u>\$10,186,322</u>
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 696,928		\$ 14,566	\$ 545,277		\$ 1,256,771
Deferred revenues	1,003,246	\$115,835			\$ 479,378	1,598,459
Deposits	59,499					59,499
Due to other fund	765,095			329,691	808,395	1,903,181
Due to other agencies	<u>174,144</u>					<u>174,144</u>
<b>Total Liabilities</b>	<u>2,698,912</u>	<u>115,835</u>	<u>14,566</u>	<u>874,968</u>	<u>1,287,773</u>	<u>4,992,054</u>
<b>Fund Balance</b>						
Reserve for:						
Debt service		301,479				301,479
State and federal programs			1,210,434	1,379,987	1,750,126	4,340,547
Undesignated	<u>552,242</u>					<u>552,242</u>
<b>Total Fund Balance</b>	<u>552,242</u>	<u>301,479</u>	<u>1,210,434</u>	<u>1,379,987</u>	<u>1,750,126</u>	<u>5,194,268</u>
<b>Total liabilities and fund balance</b>	<u>\$3,251,154</u>	<u>\$ 417,314</u>	<u>\$1,225,000</u>	<u>\$2,254,955</u>	<u>\$3,037,899</u>	<u>\$10,186,322</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2007**

<b>Fund Balances in Governmental Funds</b>	<b>\$ 5,194,268</b>
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	39,057,607
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Deferred Revenue	874,524
Bonds and notes payable	(1,875,000)
Accrued interest payable	(22,959)
Compensated absences	(1,216,224)
Advances from CRIM	(745,435)
Amount due to PR Health Insurance Administration	<u>(141,028)</u>
<b><i>Net Assets of Governmental Activities</i></b>	<b><u>\$41,125,753</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>MAJOR FUNDS</u>					<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>BONDS FUND</u>	<u>SPECIAL COMMUNITIES TRUST FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	
<b>Revenues:</b>						
Taxes:						
Property taxes	\$ 590,167	\$184,870				\$ 775,037
Municipal tax	433,104					433,104
Sale Tax	183,160					183,160
Grants and entitlements	6,818,712		\$2,222,731	\$2,737,170	\$ 3,810,330	15,588,943
Rental income	302,112					302,112
Licenses and permit	366,824					366,824
Interest	346,787	35,207				381,994
Other	<u>185,397</u>					<u>185,397</u>
Total Revenues	<u>9,226,263</u>	<u>220,077</u>	<u>2,222,731</u>	<u>2,737,170</u>	<u>3,810,330</u>	<u>18,216,571</u>
<b>Expenditures:</b>						
General administration	5,434,825				587,239	6,022,064
Public safety	499,417				55,379	554,796
Education, culture and recreational	350,838				33,935	384,773
Public works and sanitation	2,622,162		1,012,297	2,464,044	5,566,340	11,664,843
Health and welfare	648,583				1,166,646	1,815,229
Public Relation	320,266					320,266
Debt service:						
Principal		104,000				104,000
Interest		<u>116,500</u>				<u>116,500</u>
Total expenditures	<u>9,876,091</u>	<u>220,500</u>	<u>1,012,297</u>	<u>2,464,044</u>	<u>7,409,539</u>	<u>20,982,471</u>
<b>Excess of revenue over expenditures</b>	<u>\$ (649,828)</u>	<u>\$ (423)</u>	<u>\$1,210,434</u>	<u>\$ 273,126</u>	<u>\$ (3,599,209)</u>	<u>\$ (2,765,900)</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**MAJOR FUNDS**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>BONDS FUND</u>	<u>SPECIAL COMMUNITIES FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>Excess of revenues over expenditures</b>	\$ (649,828)	\$ (423)	\$1,210,434	\$ 273,126	\$(3,599,209)	\$ (2,765,900)
<b>Other financing sources (uses):</b>						
Operating transfer in	39,587	93,748			750,000	883,335
Operating transfer out	<u>(143,748)</u>	<u>(739,587)</u>				<u>(883,335)</u>
<b>Total other financing sources</b>	<u>(104,161)</u>	<u>(645,839)</u>			<u>750,000</u>	
<b>Excess of revenues and other financing sources (under) expenditures and other financing sources</b>	(753,989)	(646,262)	1,210,434	273,126	(2,849,209)	(2,765,900)
<b>Fund balance at beginning of year</b>	<u>1,306,231</u>	<u>947,741</u>		<u>1,106,861</u>	<u>4,599,335</u>	<u>7,960,168</u>
<b>Fund balance at end of year</b>	\$ <u>552,242</u>	\$ <u>301,479</u>	<u>\$1,210,434</u>	<u>\$1,379,987</u>	<u>\$ 1,750,126</u>	<u>\$ 5,194,268</u>

*Ortega*  
*28/07/07*

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

**Net change in fund balances – total governmental funds** **\$(2,765,900)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in The current period. 7,659,124

Governmental funds report principal payments on long-term debt as expenditures, whereas the principal payments reduce the long-term debt in the statement of net assets. 104,000

Changes in accrued expenses which do not require the use of current financial resources:

Interest	22,866
Compensating absences	(802,817)
Puerto Rico Health Insurance Administration	93,310
Deferred revenue	244,191

Governmental funds report payments of other long-term debt as expenditures where as the payment reduces the-long term is the obligate in the statement of net assets. 22,521

Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,076,361)

***Changes in Net Assets of Governmental Activities*** **\$ 3,500,934**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**1. ORGANIZATION**

The Municipality of Comerío (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has twelve members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

**Reporting entity**

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Comerío, this includes various services including police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality Legislative Body through the budgetary process.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

**Government wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2) Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

3) Bonds fund

This is a special fund created for the accountability of a grant provided by the Commonwealth of Puerto Rico from issuance of bonds which proceeds are internal

4) Specials Communities Trust Fund

This is a special fund created for the accountability of a grant which proceeds are intended to be used for infrastructure projects in special communities among the Municipality.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statement of Net Assets and the Statement of Activities, both government and business like activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement focus, basis of accounting and financial statement presentation (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. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

**Cash, cash equivalents, cash with fiscal agent and investment**

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

**Interfund receivables and payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfunds receivables and payables within the governmental activities are eliminated in the statement of net assets.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality elected to no capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reservation of fund balance**

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

1) Debt/ service

Represents net assets available to finance future debt service payments.

2) Restricted assets:

Restricted assets include cash and investment of the business-type activities that are legally restricted as to his used. The restricted assets are related to replacement reserve, residual receipts reserve and tenants deposit held in trust.

3) State and federal programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

**Risk financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2007 amounted to \$201,478. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$217,846 for workers compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Compensated absences**

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

**Use of estimates**

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

**Deposits and investments**

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

**3. PROPERTY TAX**

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on esteemed values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**3. PROPERTY TAX (CONTINUED)**

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2007 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

Prior to 1994, the Department of the Treasury was the agency responsible for the assessment of real property and for the administration and collection of the related taxes. Amounts advanced by the Secretary of the Treasury to the Municipality of Comerío, that had not been amortized through the collections of property taxes amounted to \$24,021 as of June 30, 2007.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15 1999. As of June 30, 2007 the amount due to CRIM amounting to \$721,414 is presented as other long-term debt (see Note 10).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**3. PROPERTY TAX (CONTINUED)**

Total property tax receivable, net of an allowance for uncollectible accounts of \$1,290,570, amounted to \$646,368 at June 30, 2007. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2007:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$1,147,697	\$ 256,318	\$ 2,656,965
Less allowance for uncollectible accounts	<u>(614,904)</u>	<u>(137,328)</u>	<u>(1,591,644)</u>
Net property taxes receivable	<u>\$ 532,793</u>	<u>\$ 118,990</u>	<u>\$ 1,065,321</u>
 Differed (unavailable property) tax revenues in GFFS	 <u>\$ 518,669</u>	 <u>\$ 115,835</u>	 <u>\$ 1,020,352</u>

**4. VOLUME OF BUSINESS TAX**

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2007, \$244,556 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets.

**5. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007**

**6. DEFERRED REVENUE**

**Deferred revenue consist o the following**

Deferred revenue in the general fund related to the municipal license tax collected in the fiscal year 2006-2007 that will be earned in fiscal year 2007-2008.	\$ 244,556
The deferred revenue presented in other governmental funds is the portion of federal grants received for which qualifying expenditures have not been incurred.	<u>479,379</u> 723,935
Property tax receivable but not available in the government fund financial statements.	634,504
Amount due from CRIM related to property tax collected and not remitted to the Municipality.	<u>240,020</u>
	<u><u>\$1,598,458</u></u>

**5. SALE TAX**

The Municipality imposes a sales and usage within the territorial limits of the Municipality. This tax consists of one percent (1%) on the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is a self assessed tax and collected monthly in a tax return that is due twenty calendar days after the end of each month. The Municipality entered in an agreement with the PR Department of Treasury (Department) where the Department is the responsible for the administrative and collection of the related taxes.

**7. COMMITMENTS AND CONTINGENCIES**

At June 30, 2007, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**8. RESTRICTED DEPOSIT**

Cash in the Business Type Activities included restricted deposits as follows:

Replacement reserve	\$914,701
Security deposits	14,446
Residual receipts	<u>35,069</u>
	<u>\$964,216</u>

**A. Replacement Reserve**

The project is required under the Project Rental Assistance Contract (PRAC) and federal regulations, to set aside amounts to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations. Funds may be drawn from the reserve and used only in accordance with HUD guidelines and with approval of, or as directed by, HUD.

**B. Security Deposits**

The project is required, under federal regulations, to set aside, at the time of the initial execution of the lease, the tenant's security deposit and its accumulated interest. The project must refund to the tenant, the full amount of the tenant's security deposit, provided the tenant does not owe any amount under the lease. The Project may use the tenant's security deposit balance as a reimbursement for any unpaid amounts the tenant owes under the lease.

**C. Residual Receipts**

The Project is required under federal regulations and PRAC to set aside the surplus project funds in an interest-bearing residual receipts account when the project funds are more than needed for the operation of the project, to pay operating expenses, and to make the required deposits to the replacement reserve. Withdrawals from this account will be made only with the approval of HUD and for project purposes, including the reduction of project rental assistance payments.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**9. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

<b>Primary Government</b>	<b>Balance June 30, 2006</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2007</b>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,835,925			\$ 4,835,925
Construction progress	<u>10,024,452</u>	<u>\$ 6,920,312</u>	<u>\$7,109,217</u>	<u>9,835,547</u>
Total capital assets not being depreciated	<u>16,860,377</u>	<u>6,920,312</u>	<u>7,109,217</u>	<u>16,671,472</u>
Capital assets being depreciated:				
Buildings	11,356,299	4,406,586		15,762,885
Equipment	1,219,388	147,694		1,367,082
Infrastructure	1,473,721	25,218		1,498,939
Infrastructure equipment	1,567,857	98,661		1,666,518
Buildings improvements	3,006,413	2,893,543		5,899,956
Furnishing	270,720	107,234		377,954
Work of art	1,580			1,580
Computer	185,217	34,155		219,372
Vehicles	<u>3,256,356</u>	<u>134,939</u>		<u>3,391,295</u>
Total capital assets being depreciated	<u>22,337,551</u>	<u>7,848,030</u>		<u>30,185,581</u>
Less accumulated depreciation for:				
Buildings	(2,411,270)	(375,392)		(2,786,662)
Equipment	(721,743)	(168,318)		(890,061)
Infrastructure	(99,278)	(37,381)		(136,659)
Infrastructure equipment	(90,908)	(109,302)		(200,210)
Buildings improvements	(302,917)	(129,899)		(432,816)
Furnishing	(208,581)	(32,603)		(241,184)
Work of art	(1,555)	(13)		(1,568)
Computer	(164,962)	(14,969)		(179,931)
Vehicles	<u>(2,721,871)</u>	<u>(208,484)</u>		<u>(2,930,355)</u>
Total	<u>(6,723,085)</u>	<u>(1,076,361)</u>		<u>(7,799,446)</u>
Total depreciable capital assets, net	<u>15,614,466</u>	<u>6,771,669</u>		<u>22,386,135</u>
Governmental activities capital assets net	<u>\$32,474,843</u>	<u>\$13,691,981</u>	<u>\$7,109,217</u>	<u>\$39,057,607</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**9. CAPITAL ASSETS (CONTINUED)**

<u>Primary Government</u>	<u>Balance June 30, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2007</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	\$ 134,360			\$ 134,360
Capital assets being depreciated:				
Building and improvements	3,770,769	\$ 21,600		3,792,369
Equipment	144,550	11,576		156,126
Furnishing	<u>32,195</u>			<u>32,195</u>
Less accumulated depreciation:				
Building and improvements	<u>3,947,514</u>	<u>33,176</u>		<u>3,980,690</u>
Equipment	(2,712,802)	(101,282)		(2,814,084)
Furnishing	(108,764)	(11,378)		(120,142)
	<u>(28,775)</u>	<u>(1,264)</u>		<u>(30,039)</u>
	<u>(2,850,341)</u>	<u>(113,924)</u>		<u>(2,964,265)</u>
Total depreciation, capital, assets net	<u>1,097,173</u>	<u>(80,748)</u>		<u>1,016,425</u>
Business activities capital assets, net	<u>\$ 1,231,533</u>	<u>\$ (80,748)</u>		<u>\$ 1,150,785</u>

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
General administration	\$ 498,933	
Public safety	36,162	
Public works	437,498	
Education, culture and recreation	101,834	
Health and welfare	1,934	
Housing	<u>          </u>	<u>\$113,924</u>
Total depreciation expense	<u>\$1,076,361</u>	<u>\$113,924</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**10. LONG-TERM DEBT**

Long-term liability activity for the year ended June 30, 2007 was as follows:

<b>Primary government: Governmental Activities:</b>	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due within one year</u></b>
Bonds and notes payable	<u>\$1,979,000</u>	<u>          </u>	<u>\$104,000</u>	<u>\$1,875,000</u>	<u>\$182,000</u>
Other long-term debt:					
Advance from CRIM	767,956		22,521	745,435	
Compensated absences	413,407	\$ 802,817		1,216,224	165,442
PR Health Insurance Administration	<u>234,338</u>	<u>          </u>	<u>93,310</u>	<u>141,028</u>	<u>100,000</u>
	<u>1,415,701</u>	<u>802,817</u>	<u>115,831</u>	<u>2,102,687</u>	<u>265,442</u>
Total	<u>3,394,701</u>	<u>802,817</u>	<u>219,831</u>	<u>3,977,687</u>	<u>447,442</u>
<b>Business-type activities:</b>					
Mortgage payable	<u>1,301,869</u>	<u>          </u>	<u>72,129</u>	<u>1,229,740</u>	<u>78,814</u>
Total	<u>\$4,696,570</u>	<u>\$ 802,817</u>	<u>\$291,960</u>	<u>\$5,207,427</u>	<u>\$526,256</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COMERIO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007**

**10. LONG-TERM DEBT (CONTINUED)**

**Governmental activities:**

Bonds and notes payable:

\$342,000 serial bond of 1993 payable in annual principal installments of \$16,000 to \$26,000 through January 1, 2016 plus interest at 5.75%	\$ 185,000
\$95,000 serial bonds of 1993 payable in annual principal installments ranging from \$5,000 to \$7,000 through January 1, 2016, plus interest at 5%	51,000
\$505,000 serial bond of 2003 payable in annual principal installments ranging from \$10,000 to \$40,000 through July 1, 2027, plus interest at 5% to 6.5%	465,000
\$1,010,000 serial bond 2007 payable in an annual principal installment of \$25,000 to \$70,000 through July 1, 2029, plus interest at 5%	945,000
\$165,000 serial of 2001 payable in annual installments ranging from \$26,000 to \$28,000 through January 1, 2009 plus interest at 4.5%	54,000
\$200,000 serial of 2006 bond payable in annual principal installments ranging from \$25,000 to \$33,000 through January 1, 2013, plus interest at 4.50%.	<u>175,000</u>
	<u>1,875,000</u>

**Business-type activities:**

Mortgage note payable in monthly installments of \$15,513 including interest at 9% through 2016. The note is collateralized by a residential building.	<u>1,229,740</u>
	<u>\$3,104,740</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**10. LONG-TERM DEBT (CONTINUED)**

**Advances from CRIM**

These amounts represent the balance owed to CRIM at June 30, 2007 as described in Note 3 and is payable in semiannual aggregated installments of \$33,245 through August 2009 and \$28,303 thereafter through July 2032 including interest at 6.1%.

**Health Reform Insurance Liability**

The amount due to the Puerto Rico Health Insurance Administration is related with an unpaid balance from year ended at June 30, 1997 accordingly with the implementation of Act No. 72 of September 7, 1993, which establishes contributions for the medical services covered by the Health Reform based on the operational budget of the municipalities. The unpaid balance will be amortized through the proportional participation of the municipalities to the annual increase in electronic lottery income which will be collected and withheld by the Treasury Department of Puerto Rico.

The annual debt service requirements to maturity long-term debt as of June 30, 2007 are as follows:

**Governmental-Type Activities**

<b><u>Bonds Payable</u></b> <b><u>Year Ended June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ 83,000	\$ 51,093
2009	112,000	93,608
2010	91,000	87,905
2011	94,000	83,210
2012	102,000	78,242
2013-2017	403,000	316,989
2018-2022	325,000	221,400
2023-2027	430,000	120,650
2028-2030	<u>234,000</u>	<u>16,825</u>
	<b><u>\$1,275,000</u></b>	<b><u>\$1,069,422</u></b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**10. LONG-TERM DEBT (CONTINUED)**

**Due to CRIM:**

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 83,000	\$ 51,093
2009	112,000	93,608
2010	91,000	87,905
2011	94,000	83,210
2012	102,000	78,242
2013-2017	403,000	316,989
2018-2022	325,000	221,400
2023-2027	430,000	120,650
2028-2031	<u>235,000</u>	<u>16,325</u>
	<u>\$1,875,000</u>	<u>\$1,069,422</u>

**Business-type activities**

Mortgage note payable:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 78,814	\$107,342
2009	286,179	99,977
2010	94,232	91,924
2011	103,037	83,119
2012	113,806	72,350
2013-2016	<u>753,672</u>	<u>177,108</u>
	<u>\$1,229,740</u>	<u>\$631,820</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**11. RETIREMENT SYSTEM**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

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

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined, otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275% of the participant's gross salary.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**11. RETIREMENT SYSTEM (CONTINUED)**

**Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Bank is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2007 amounted to approximately \$200,064 and \$230,422, respectively. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the Retirement System.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007**

**12. CONTINGENCIES**

At June 30, 2007, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

**RIQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**SCHEDULE OF BUDGETARY COMPARISON**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GENERAL FUND</u>			<u>VARIANCE</u> <u>WITH FINAL BUDGET</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL AT</u> <u>BUDGETARY</u> <u>BASIS</u>	
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 651,838	\$ 651,838	\$ 590,167	\$ (61,671)
Municipal tax	411,787	411,787	433,104	21,317
Sale	13,281	73,281	183,160	109,879
Grants and entitlements	6,724,118	6,724,118	6,818,712	94,594
Rental income	226,876	226,876	302,112	75,236
Licenses and permits	192,185	192,185	366,824	174,639
Interest	300,741	300,741	386,374	85,633
Other	<u>1,111,969</u>	<u>1,111,969</u>	<u>185,397</u>	<u>(926,572)</u>
Total revenues	<u>9,692,795</u>	<u>9,692,795</u>	<u>9,265,850</u>	<u>(426,945)</u>
<b>Expenditures:</b>				
General administration	4,884,094	4,916,147	5,434,825	(518,678)
Public safety	566,756	562,256	499,417	62,839
Education, culture and recreational	371,074	360,929	350,838	10,091
Public works and sanitation	2,784,802	2,716,679	2,622,162	94,517
Health and welfare	669,329	668,826	648,583	20,243
Public relation	328,593	324,210	320,266	3,944
Debt service	<u>87,247</u>	<u>143,748</u>	<u>143,748</u>	<u>          </u>
Total expenditures	<u>9,692,795</u>	<u>9,692,795</u>	<u>10,019,839</u>	<u>(327,044)</u>
Excess of revenue over expenditure	\$ <u>          </u>	\$ <u>          </u>	\$ <u>(753,989)</u>	\$ <u>(753,989)</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISON**  
**JUNE 30, 2007**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Public hearings are conducted at the Municipal Legislative Room to obtain citizens comments.
- 4) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 5) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 6) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO BUDGETARY COMPARISON SCHEDULE (CONTINUED)**  
**JUNE 30, 2007**

**2. RECONCILIATION OF GAAP TO BUDGETARY BASIS**

Adjustments necessary to reconcile the revenues and expenditures of the general fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles (GAAP) basis	\$9,226,263	\$9,876,091
Transfer in included as revenues in budgetary basis	39,587	
Transfer out included as expenditures in budgetary basis	<u>                    </u>	<u>143,748</u>
Budgetary basis	<u>\$9,205,850</u>	<u>\$10,019,839</u>

**MUNICIPALITY OF COMERIO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>NUMBER</u>	<u>EXPENDITURES</u>
<b><u>US Department of Housing and Urban Development</u></b>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$1,768,593
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	530,637
Emergency Shelter Grant Program	14.231	96,491
<b><u>US Department of Justice</u></b>		
Direct program:		
Public Safety Partnership and Community Policing Grants (COPS)	16.712	3,998
Crime Victim Assistance Program	16.575	34,192
<b><u>US Department of Agriculture</u></b>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	7,771
<b><u>US Department of Health and Human Services</u></b>		
Passed through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	216,078
Temporary Assistance for Needy Families	93.558	110,298
<b><u>US Department Homeland Security</u></b>		
Passed through:		
Puerto Rico Office of Management and Budget		
Disaster Grant Public Assistance (Presidentially Declared Disaster)	97.036	<u>283,495</u>
		<u>\$3,051,493</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COMERIO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2007**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Comerío and is presented on the modify basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments and Non profit organizations.

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

*Carlos R. Diaz Negrón*

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants  
Puerto Rico Society of Certified Public Accountants

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PO BOX 408, 44 RAFAEL LASA ST., AGUAS BUENAS, PR 00703 TEL. (787) 732-8020 FAX (787) 732-0685. E-MAIL: cardiaz@prtc.net

**REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARD**

**To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Comerío  
Comerío, Puerto Rico**

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Comerío, Puerto Rico**, as of and for the year ended June 30, 2007 which collectively comprise the Municipality of Comerío's basic financial statements and have issued my report there on dated November 8, 2007. Other auditors audited the financial statements of Rio Plata Development, as described in our report on Municipality of Comerío's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financing Reporting**

In planning and performing my audit, I considered Municipality of Comerío's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Municipality of Comerío's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Comerío's internal control over financial reporting.

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Comerío's 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 Municipality of Comerío's financial statements that is more than inconsequential will not be prevented or detected by Municipality of Comerío's internal control.

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

My consideration of internal control over financial reporting was form 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### Compliance and Other Material

A part of obtaining reasonable assurance about whether Municipality of Comerío's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, Municipal Legislative Body, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 26, 2007  
Aguas Buenas, Puerto Rico

License No. 1339  
Expires December 1, 2010


The stamp No. 2256899 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

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

**To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Comerío  
Comerío, Puerto Rico**

**Compliance**

I have audited the compliance of Municipality of Comerío, Puerto Rico, 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. Municipality of Comerío, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Comerío, Puerto Rico's management. My responsibility is to express an opinion on Municipality of Comerío, Puerto Rico's compliance based on my audit. Municipality of Comerío's basic financial statements include the operations of the Río Plata Development (a business type activities), which expenditures of \$1,727,147 in federal awards which is not included in the schedule during the year ended June 30, 2007. My audit described below, did not include the operations of the business type activities because those statements were audited by other auditors.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of State and 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 non-compliance 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 Municipality of Comerío, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstance. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Comerío, Puerto Rico's compliance with those requirements.

## REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

The report is interested solely for the information and use of the management and the Municipal Legislative Body of the Municipality of Comerio, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

### Internal Control over Compliance

The management of Municipality of Comerio, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Comerio, Puerto Rico's internal control over compliance with requirement 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 our opinion on compliance and but not for the purpose of expensing an opinion on the effectiveness of internal control over compliance accordingly, I do not express an opinion on the effectiveness of Municipality's internal control over compliance.

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 on 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 that inconsequential will not be prevented or detected by the entity's internal control.

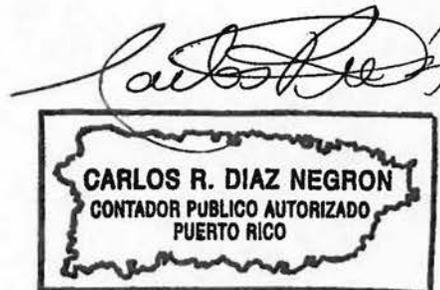
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses a defined above.

In my opinion, the Municipality of Comerio, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program form the year ended June 30, 2007.

October 26, 2007  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2010



The stamp No. 2256900 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF COMERIO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**SECTION I. - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

**Type of auditor's report issued**

**Unqualified**

Internal control over financial reporting:

- Material weakness (es) identified? \_\_\_yes X\_no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes X\_no

Noncompliance material to financial statement noted? \_\_\_yes X\_no

**Federal Awards**

Internal control over major programs:

- Material weakness (es) identified? \_\_\_yes X\_no
- Report condition(s) identified that are not considered to be material weakness(es) \_\_\_yes X\_no

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

**Qualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 \_\_\_yes X\_no

Identification of major programs:

**CFA Number(s)**

**Name of Federal Program Cluster**

14.871  
14.228

Section 8 - Housing Choices Voucher  
Community Development Block Grant/  
State's Program.

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Audit qualified as low-risk audited? \_\_\_yes X\_no

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

**SECTION II – FINANCIAL STATEMENTS FINDINGS:**

**NONE**

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

**SECTION III – FINANCIAL STATEMENTS FINDINGS:**

**NONE**