

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

**MUNICIPIO DE COROZAL**  
**AUDITORIA 2006-2007**  
**30 DE JUNIO DE 2007**

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DE LOS MUNICIPIALES  
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**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**Independent Auditors' Report**

**Basic Financial Statements and  
Supplemental Schedules**

**Year Ended June 30, 2007**

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES  
YEAR ENDED JUNE 30, 2007**

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**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE  
ENDED JUNE 30, 2007

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members  
of the Municipal Legislature  
Municipality of Corozal  
Corozal, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit

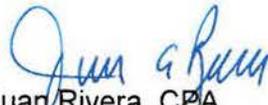
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico, as of June 30, 2007, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, we have also issued a report dated December 14, 2007 on my consideration of the Government internal control over financial reporting and my tests of its compliance with certain provisions of law, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of my audit.

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

The Management's Discussion and Analysis and the Budgetary Comparison Schedule - General Fund are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Juan Rivera, CPA  
License 2214



December 14, 2007  
Toa Baja, Puerto Rico

Stamp No. 2278119 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Municipality of Corozal (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Municipality's financial statements.

Management of the Municipality of Corozal (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"). This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

**FINANCIAL HIGHLIGHTS**

The Municipality Governmental Activities net assets increased by \$2,653,291.

The Municipality Business Type Activities net assets decreased by \$159,647 due to depreciation charges of \$158,561 and other miscellaneous net items of \$1,086. The Business Type Activities revenue from Municipality contributions increased \$68,823 or 37.1%.

In the fund financial statements, the governmental revenue increased \$2,375,460 (or 18.3%) while governmental expenditures increased \$20,308 (or 0.2%) including capital expenditures.

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, an increase of \$360,931.

On a budgetary basis, actual revenues exceeded actual expenditures by \$9,169.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$1,238,196.

Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure amounted to \$2,252,181.

During current year the Municipality issued \$116,841 in long term debt to finance capital expenditures and improvements.

**USING THIS ANNUAL REPORT**

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

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

**Reporting the Municipality as a Whole**

One of the most important questions asked about the Municipality's finances is, "Is the Municipality as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. You can think of the Municipality's net assets -the difference between assets and liabilities- as one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the Municipality's roads, to assess the overall health of the Municipality.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into two kinds of activities:

**Governmental activities** - Most of the Municipality's basic services are reported here, including the public safety, sanitation, health, housing, public works, sports and recreation, and general administration. Property taxes, Municipal taxes, franchise fees, state contributions and federal grants finance most of these activities.

**Proprietary business type activities** - The Municipality includes in its report as a business type activity the operations of the Historic and Tourist Center of Cibuco. This activity is important because the Municipality is financially accountable for it.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not-the Municipality as a whole. The Municipality has two kinds of fund which are the governmental fund and proprietary fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

**Fund Financial Statements (Cont.)**

Proprietary funds are used when the Municipality charges customers for the services it provides-whether to outside customers or to other units of the Municipality-these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, but provide more details and additional information, such as cash flows, for proprietary funds.

**Infrastructure Assets**

Historically, a government's infrastructure (roads, bridges, traffic signals, etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide 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 (the 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 condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2003, the Municipality commenced the prospective reporting of infrastructure assets, and retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's Financial Position. The Municipality's net assets of governmental activities totaled \$28,789,338 at the end of current year, compared to \$26,136,047 at the end of the previous- year; this increase of \$2,653,291 represents the operational result of excess revenues over expenditures. The net assets of the proprietary business type activities totaled \$5,280,040 at the end of current year, compared to \$5,439,687 at the end of the previous- year; this decrease of \$159,647 was due to depreciation charges of \$158,561 and other miscellaneous net items of \$1,086.

The largest portion of the Municipality's net assets is the investment in capital assets such as land, buildings, improvements, vehicles, equipment, infrastructure, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service and amounts restricted for capital projects, represents another portion of the net assets. These are resources subject to external restrictions for the purposes explained above.

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

**Condensed Statement of Net Assets  
As of June 30, 2007 and 2006**

	<b>Govenmental Activities</b>		<b>Component Unit</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Current assets	\$ 8,387,910	\$ 7,402,953	\$ 6,581	\$ 930
Capital assets-net	30,924,494	29,903,688	5,280,040	5,439,687
Other assets	<u>1,964,075</u>	<u>1,243,363</u>	<u>-</u>	<u>-</u>
Total assets	<u>41,256,479</u>	<u>38,558,004</u>	<u>5,286,621</u>	<u>5,440,617</u>
Current liabilities	4,812,234	4,175,681	6,581	930
Noncurrent liabilities	<u>7,654,907</u>	<u>8,238,276</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>12,467,171</u>	<u>12,413,957</u>	<u>6,581</u>	<u>930</u>
Invested in capital assets, net of related debt	25,197,537	24,068,571	5,280,040	5,439,687
Unrestricted – (deficit)	(1,347,535)	(1,669,709)		
Restricted	<u>4,939,336</u>	<u>3,737,185</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 28,789,338</u>	<u>\$ 26,136,047</u>	<u>\$ 5,280,040</u>	<u>\$ 5,439,687</u>

**Changes in Net Assets**

The Municipality's governmental activities net assets increases by \$2,653,291; due to excess revenues over expenses. Approximately 22 percent of the Municipality's revenue came from taxes, while 72 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 6 percent of the total revenues. Current period revenues increased by \$2,375,460 (18.3%) while expenses increased \$20,308 (0.2%). The Municipality's expenses cover a range of services. The largest expenses were for general government administration, sanitation, public works, housing and depreciation.

The Business type activities net assets decreased by \$159,647 due to depreciation charges of \$158,561. Total revenue of the business type activity came from fees and Municipality contributions. The largest expenses were for depreciation, and operations. The Business Type Activities revenue from Municipality contributions increased \$68,823 or 37.1%.

A comparative analysis of government-wide data is presented in next page.

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

**Condensed Statement of Activities  
For the years ended June 30, 2007 and 2006**

**GOVERNMENTAL ACTIVITIES:**

	<u>2007</u>	<u>2006</u>
Program revenues:		
Charges for services	\$ 534,584	\$ 796,034
Operating grants and contributions	2,115,602	1,865,802
Capital grants and contributions	2,947,995	738,851
General revenues:		
Property taxes	1,886,852	2,057,518
Municipal license tax	1,053,405	957,938
Interest and investment earnings	262,311	163,139
Grants and contributions not restricted	<u>6,570,533</u>	<u>6,416,540</u>
Total revenues	<u>15,371,282</u>	<u>12,995,822</u>
Expenses		
General Administration	5,058,188	5,067,820
Health	458,331	458,331
Housing	578,588	640,086
Public safety	630,993	690,308
Sports and recreation	294,959	300,347
Sanitation	997,402	1,043,228
Elderly centers	238,788	276,167
Interest on long-term debt	380,540	318,784
Depreciation	1,340,245	1,209,240
Public works	<u>2,739,957</u>	<u>2,693,372</u>
Total expenses	<u>12,717,991</u>	<u>12,697,683</u>
Excess revenues over expenses	<u>\$ 2,653,291</u>	<u>\$ 298,139</u>

**BUSINESS TYPE ACTIVITIES:**

Revenues:		
Grants and contributions	\$ 254,081	\$ 185,258
Fees	<u>33,483</u>	<u>35,935</u>
Total revenues	<u>287,564</u>	<u>221,193</u>
Expenses:		
Operating and maintenance	288,650	221,676
Depreciation	<u>158,561</u>	<u>159,647</u>
Total expenses	<u>447,211</u>	<u>381,323</u>
Excess revenue over expenses	<u>\$ (159,647)</u>	<u>\$ (160,130)</u>

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

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

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

**Governmental Funds**

The focus of, the Municipality's governmental- funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$6,484,403 an increase of \$1,675,117 in comparison with the prior year. There are reservations of fund balance amounting to \$4,939,336. This is the fund balance that it is not available for new spending because it has already been committed for the following purposes: 1) to liquidate contracts and purchase orders of the prior fiscal year (\$138,868), 2) to pay debt service (\$926,048), 3) to pay for capital projects (\$3,044,613) and 4) for other purposes (\$829,807). Accordingly, the unreserved fund balance amounts to \$1,545,067 in the governmental funds.

Within the governmental funds, it is included the **general fund** which is the chief operating fund of the Municipality. As of June 30, 2007, the general fund has a balance of \$1,912,362. The fund balance of the general fund increased by \$360,931. Key factors in the increase of the fund balance are as follows:

• Excess revenues over expenditures	\$ 124,918
• Operating transfer from other governmental funds	236,013

Revenues decreased by \$97,451 (1.0%) due to a decrease in other non-recurrent revenues of \$244,671, a decrease in property taxes of \$173,001, an increase of \$152,182 in Contributions from Government of PR, an increase of \$95,467 in volume of business taxes, an increase of \$87,540 for interest revenue and a net decrease of \$14,968 in all other revenue items. Expenditures increased \$457,108 (5.0%) due to an increase of \$454,735 for Capital outlays, and a net increase of \$2,373 for all other expenditures categories.

The **Capital Project Fund** Balance, which is reserved for major capital expenditures, reflected an increase of \$1,234,669. Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure amounted to \$1,788,175.

The **Joint Resolutions Fund** balance decreased by \$10,534 due to excess expenditures over revenues.

The **Debt Service Fund** balance reported a decrease of \$46,751 as a result of excess expenditures over revenues.

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

**Other Governmental Funds** balances increased by \$133,275 mainly for excess revenues over expenditures of \$280,890 and transfers to other governmental funds of \$147,615.

**Business-type Activities** net assets decreased by \$159,647. Revenues of the Municipality's business-type activities reported \$287,564 while expenses amounted to \$447,211, including a charge for depreciation of \$158,561. Business Type Activities fee revenue decreased \$2,452 (6.8%) while revenue from Municipality contributions increased \$68,823 (37.1%).

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases (decreases) in budgeted expenditures were also made since the law mandates a balanced budget.

In summary the general fund actual revenues were under budget by \$63,306 and actual expenditures were under budget by \$72,475, for a net favorable variance of \$9,169. The most significant variance between budget and actual results was uncollected other revenues in the amount of \$157,806.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets, including business type activities, as of June 30, 2007, amounts to \$49,977,823, with accumulated depreciation of \$13,773,289, leaving a net book value of \$36,204,534; of which \$30,924,494 are used for governmental activities and \$5,280,040 for business type activities. This investment in capital assets includes land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Infrastructure assets are items that are normally irremovable and of value only to the state, such as roads, bridges, streets and sidewalks, and similar items.

Actual expenditures to purchase or construct capital assets for governmental activities were \$2,252,181 for the year. Depreciation charges for the year totaled \$1,498,806, of which \$1,340,245 are related to governmental activities and \$158,561 to business type activities.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2007 the Municipality has \$717,038 of unexpended proceeds from bond issuances and \$2,327,575 from other sources, for a total of \$3,044,613 that are committed to future construction activities, including completion of the Convention Center and other project.

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

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt – The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes the municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special- Additional Tax (as defined below), as projected by GDB, will be sufficient to service maturity of the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

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

During the year ended June 30, 2007 the Municipality issued \$116,840 in long term debt. As of June 30, 2007 the Municipality Long Term Debt is composed as follows:

Bonds payable	\$4,187,000
Notes payable	265,000
Loan P.R. Treasury Department	35,201
Advances from CRIM	1,342,461
Loan US Department of Agriculture	<u>1,274,957</u>
	\$7,104,619

Other long term obligations consist of \$1,514,940 of accrued compensated absences such as vacations, sick leave, Christmas bonus and related taxes.

As of June 30, 2007 the Municipality redemption fund (debt service) has a balance of \$697,621, which is restricted for the payment of long term debt principal and interest.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as contributions and grants to carry out the governmental activities. Historically, property taxes, municipal taxes and PR Government contributions have been predictable. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONT.)**

Those factors were considered when preparing the Municipality's budget for the 2007-2008 fiscal year.

In summary all revenues and expenditures for the general fund were budgeted in \$10,818,003 which represents a net increase of \$448,627 or 4.3%. The most significant changes presented between the budget for fiscal year 2006-2007 and the one for fiscal year 2007-2008 are the following:

Increase in Municipal Police appropriations	\$317,270	(157.3%)
Increase in Sanitation appropriations	\$333,641	( 37.8%)
Increase in Public Works appropriations	\$355,356	( 18.7%)
Increase in Sports and Recreation appropriations	\$110,793	( 37.4%)
Increase in Emergency Management appropriations	\$124,848	( 46.7%)
Increase in Elderly Centers appropriations	\$ 30,379	( 33.3%)
Net decrease in Administrative appropriations	\$829,291	( 14.0%)

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 710 or #9 Cervantes Street, Corozal, Puerto Rico 00783.

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

<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS TYPE ACTIVITIES</b>	<b>2007 TOTAL</b>	<b>2006 TOTAL</b>
Current Assets:				
Cash	\$ 2,334,996	\$ -	\$ 2,334,996	\$ 1,846,047
Investment	3,760,898		3,760,898	2,678,608
Accounts receivable:				
Other	-	6,581	6,581	6,198
Property taxes	237,561		237,561	222,510
Due from other governments	2,034,455	-	2,034,455	1,544,080
<b>Total current assets</b>	<b>8,367,910</b>	<b>6,581</b>	<b>8,374,491</b>	<b>6,297,443</b>
Noncurrent Assets:				
Cash held with fiscal agent	1,964,075		1,964,075	2,349,803
Capital Assets (net of depreciation)	30,924,494	5,280,040	36,204,534	35,343,375
<b>Total noncurrent assets</b>	<b>32,888,569</b>	<b>5,280,040</b>	<b>38,168,609</b>	<b>37,693,178</b>
<b>TOTAL ASSETS</b>	<b>41,256,479</b>	<b>5,286,621</b>	<b>46,543,100</b>	<b>43,990,621</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	529,605	6,581	536,186	446,074
Due to other governmental units	1,646,182		1,646,182	1,501,424
Deferred Revenues	1,065,171		1,065,171	1,099,684
Accrued interest on Loans	606,624		606,624	530,778
Current portion of long term debt	964,652	-	964,652	598,651
<b>Total current liabilities</b>	<b>4,812,234</b>	<b>6,581</b>	<b>4,818,815</b>	<b>4,176,611</b>
Noncurrent Liabilities:				
Advances from CRIM Law 42	1,065,275		1,065,275	1,073,846
Advances from CRIM Law 146	277,186		277,186	305,931
Loan PR Treasury Department Law 80	35,201		35,201	47,339
Bonds Payable	4,187,000		4,187,000	4,392,000
Notes payable	265,000		265,000	285,000
Accrued compensated absences	1,514,940		1,514,940	1,574,694
Advances US Department of Agriculture	1,274,957	-	1,274,957	1,158,117
	8,619,559	-	8,619,559	8,836,927
Less: Reported as current portion	(964,652)	-	(964,652)	(598,651)
<b>Total noncurrent liabilities</b>	<b>7,654,907</b>	<b>-</b>	<b>7,654,907</b>	<b>8,238,276</b>
<b>TOTAL LIABILITIES</b>	<b>12,467,141</b>	<b>6,581</b>	<b>12,473,722</b>	<b>12,414,887</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	25,197,537	5,280,040	30,477,577	29,508,258
Restricted for Capital Projects	3,044,613		3,044,613	1,806,417
Restricted for Debt Service	926,048		926,048	744,372
Restricted for Other Purposes	829,807		829,807	707,066
Reserve for Encumbrances	138,868		138,868	218,206
Unrestricted	(1,347,535)	-	(1,347,535)	(1,408,585)
<b>TOTAL NET ASSETS</b>	<b>\$ 28,789,338</b>	<b>\$ 5,280,040</b>	<b>\$ 34,069,378</b>	<b>\$ 31,575,734</b>

The accompanying notes are integral part of the financial statements. See auditor's report.

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

	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>			
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>2007 TOTAL</u>	<u>2006 TOTAL</u>
<b>GOVERNMENTAL ACTIVITIES:</b>								
General Administration	5,058,188	\$ 218,256	\$ 16,321	\$ -	\$ (4,823,611)		\$ (4,823,611)	\$ (4,579,479)
Public work	2,739,957	316,328	887,672	2,947,995	1,412,038		1,412,038	(810,385)
Health	458,331				(458,331)		(458,331)	(458,331)
Emergency management	267,386		1,741		(265,645)		(265,645)	(274,226)
Municipal Police	363,607		165,713		(197,894)		(197,894)	(243,737)
Sports and recreation	294,959				(294,959)		(294,959)	(300,347)
Sanitation	997,402		316,545		(680,857)		(680,857)	(1,038,886)
Elderly Centers	238,788		149,022		(89,766)		(89,766)	(63,581)
Housing	578,588		578,588		-		-	-
Interest on Long Term Debt	380,540				(380,540)		(380,540)	(318,784)
Depreciation	1,340,245	-	-	-	(1,340,245)		(1,340,245)	(1,209,240)
Total governmental activities	<u>12,717,991</u>	<u>534,584</u>	<u>2,115,602</u>	<u>2,947,995</u>	<u>(7,119,810)</u>		<u>(7,119,810)</u>	<u>(9,296,996)</u>
<b>BUSINESS TYPE ACTIVITIES:</b>								
Operations	288,650	33,483	254,081			(1,086)	(1,086)	(483)
Depreciation	158,561	-	-	-		(158,561)	(158,561)	(159,647)
Total business type activities	<u>447,211</u>	<u>33,483</u>	<u>254,081</u>	<u>-</u>		<u>(159,647)</u>	<u>(159,647)</u>	<u>(160,130)</u>
<b>TOTAL ACTIVITIES</b>	<b>\$ 13,165,202</b>	<b>\$ 568,067</b>	<b>\$ 2,369,683</b>	<b>\$ 2,947,995</b>			<b>(7,279,457)</b>	<b>(9,457,126)</b>
<b>GENERAL REVENUES:</b>								
Property taxes, levied for general purposes					1,539,669		1,539,669	1,712,670
Property taxes, levied for debt services					347,183		347,183	344,848
Volume of business taxes					1,053,405		1,053,405	957,938
Government of P.R. Contributions					5,217,554		5,217,554	5,065,372
Contributions in lieu of taxes					1,352,979		1,352,979	1,351,168
Interest					262,311	-	262,311	163,139
TOTAL GENERAL REVENUES					<u>9,773,101</u>		<u>9,773,101</u>	<u>9,595,135</u>
<b>CHANGES IN NET ASSETS</b>					2,653,291	(159,647)	2,493,644	138,009
Prior period adjustments					-	-	-	97,118
Net assets - beginning of period					<u>26,136,047</u>	<u>5,439,687</u>	<u>31,575,734</u>	<u>31,340,607</u>
Net assets - ending of period					<u>\$ 28,789,338</u>	<u>\$ 5,280,040</u>	<u>\$ 34,069,378</u>	<u>\$ 31,575,734</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2007

ASSETS	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2007 TOTAL GOVERNMENTAL FUNDS</u>	<u>2006 TOTAL GOVERNMENTAL FUNDS</u>
Cash	\$ 1,175,024	\$ 131,296	\$ 362,735	\$ -	\$ 665,941	\$ 2,334,996	\$1,846,047
Cash held with fiscal agent			717,038	1,247,037		1,964,075	2,349,803
Investment	2,760,898		1,000,000			3,760,898	2,678,608
Accounts receivable:							
Other	-					-	5,268
Property Taxes	218,413			19,148		237,561	222,510
Due from other governments	1,482,979				551,476	2,034,455	1,544,080
Due from other funds	<u>632,551</u>	<u>192,690</u>	<u>964,840</u>	<u>-</u>	<u>198,909</u>	<u>1,988,990</u>	<u>1,610,373</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,269,865</u>	<u>\$ 323,986</u>	<u>\$ 3,044,613</u>	<u>\$ 1,266,185</u>	<u>\$ 1,416,326</u>	<u>\$ 12,320,975</u>	<u>\$ 10,256,689</u>

The accompanying notes are integral part of the financial statements. See auditor's report

MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2007  
(Continued)

	<u>GENERAL</u> <u>FUND</u>	<u>JOINT</u> <u>RESOLUTIONS</u>	<u>CAPITAL</u> <u>PROJECTS</u>	<u>DEBT</u> <u>SERVICES</u>	<u>OTHER</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>2007</u> <u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>2006</u> <u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
<b>LIABILITIES</b>							
Accounts payable	\$ 269,605	\$ -	\$ -	\$ -	\$ -	\$ 269,605	\$ 445,144
Due to other governmental units	1,646,182					1,646,182	1,501,424
Deferred Revenues	787,217				277,954	1,065,171	1,099,684
Accrued employee benefits	260,000					260,000	260,000
Accrued interest on Loans	38,060			568,564		606,624	530,778
Due to other funds	1,356,439	-	-	-	632,551	1,988,990	1,610,373
<b>TOTAL LIABILITIES</b>	<u>4,357,503</u>	<u>-</u>	<u>-</u>	<u>568,564</u>	<u>910,505</u>	<u>5,836,572</u>	<u>5,447,403</u>
<b>FUND BALANCES</b>							
Reserved for:							
Inventories						-	-
Capital Projects			3,044,613			3,044,613	1,806,417
Debt Service	228,427			697,621		926,048	744,372
Other Purposes		323,986			505,821	829,807	707,066
Encumbrances	138,868					138,868	218,206
Unreserved	1,545,067	-	-	-	-	1,545,067	1,333,225
<b>TOTAL FUND BALANCES</b>	<u>1,912,362</u>	<u>323,986</u>	<u>3,044,613</u>	<u>697,621</u>	<u>505,821</u>	<u>6,484,403</u>	<u>4,809,286</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,269,865</u>	<u>\$ 323,986</u>	<u>\$ 3,044,613</u>	<u>\$ 1,266,185</u>	<u>\$ 1,416,326</u>		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	30,924,494	29,903,688
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(8,619,559)</u>	<u>(8,576,927)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 28,789,338</u>	<u>\$ 26,136,047</u>
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The accompanying notes are integral part of the financial statements. See auditor's report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2007 TOTAL GOVERNMENTAL FUNDS</u>	<u>2006 TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES:</b>							
Property taxes	\$ 1,539,669	\$ -	\$ -	\$ 347,183	\$ -	\$ 1,886,852	\$ 2,057,518
Volume of Business Taxes	1,053,405					1,053,405	957,938
Government of P R Contributions	5,217,554	7,564	1,965,627		472,264	7,663,009	5,530,147
Contributions in lieu of taxes	1,352,979					1,352,979	1,351,168
Grants and contributions	-		982,368		1,086,538	2,068,906	2,139,878
Sales taxes	-				468,740	468,740	-
Charges for services	316,328					316,328	312,137
Rent	69,003					69,003	89,973
Interest	211,642			50,669		262,311	163,139
Miscellaneous	149,253	-	-	-	80,496	229,749	393,924
<b>TOTAL REVENUES</b>	<u>9,909,833</u>	<u>7,564</u>	<u>2,947,995</u>	<u>397,852</u>	<u>2,108,038</u>	<u>15,371,282</u>	<u>12,995,822</u>
<b>EXPENDITURES:</b>							
General Administration	4,952,034				3,287	4,955,321	5,050,963
Public work	1,909,354	18,098			812,505	2,739,957	2,693,372
Health	458,331					458,331	458,331
Civil Defence	265,787				1,599	267,386	274,226
Municipal Police	197,894				165,713	363,607	416,082
Sports and recreation	294,959					294,959	300,347
Sanitation	880,401				117,001	997,402	1,043,228
Elderly Centers	90,333				148,455	238,788	276,167
Housing					578,588	578,588	640,086
Capital Outlay	464,006		1,788,175			2,252,181	2,429,557
Principal Retirement on Long Term Debt	115,946			170,000		285,946	247,637
Interest on Long Term Debt	155,870	-	-	224,670	-	380,540	318,784
<b>TOTAL EXPENDITURES</b>	<u>9,784,915</u>	<u>18,098</u>	<u>1,788,175</u>	<u>394,670</u>	<u>1,827,148</u>	<u>13,813,006</u>	<u>14,148,780</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<u>124,918</u>	<u>(10,534)</u>	<u>1,159,820</u>	<u>3,182</u>	<u>280,890</u>	<u>1,558,276</u>	<u>(1,152,958)</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007  
(Continued)

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2007 TOTAL GOVERNMENTAL FUNDS</u>	<u>2006 TOTAL GOVERNMENTAL FUNDS</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Capital related debt issued	\$ -	\$ -	\$ 116,841	\$ -	\$ -	\$ 116,841	\$ -
Transfers	<u>236,013</u>	<u>-</u>	<u>(38,465)</u>	<u>(49,933)</u>	<u>(147,615)</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>236,013</u>	<u>-</u>	<u>78,376</u>	<u>(49,933)</u>	<u>(147,615)</u>	<u>116,841</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	360,931	(10,534)	1,238,196	(46,751)	133,275	1,675,117	(1,152,958)
Prior period adjustments: Reclassification							
Other	-	-	-	-	-	-	(67,640)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,551,431</u>	<u>334,520</u>	<u>1,806,417</u>	<u>744,372</u>	<u>372,546</u>	<u>4,809,286</u>	<u>6,029,884</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 1,912,362</u>	<u>\$ 323,986</u>	<u>\$ 3,044,613</u>	<u>\$ 697,621</u>	<u>\$ 505,821</u>	<u>\$ 6,484,403</u>	<u>\$ 4,809,286</u>

*Handwritten signature and date: 2/2/08*

The accompanying notes are integral part of the financial statements.

MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>2007</u>
Net changes in fund balances - total governmental funds	\$ 1,675,117
Reconciling items:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,252,181) exceed depreciation expense (\$1,340,245) in the current period.	911,936
Accrued sick leave, vacations and Christmas bonus benefits are long-term liabilities in the statement of net assets. The liquidation of such employee benefits are reported as expenditures in the governmental funds, but as a decrease in liability in the statement of net assets. This amount is the net increase in accrued employee's benefits.	(102,867)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments (\$285,946) exceeded proceeds (\$116,841).	<u>169,105</u>
Changes in net assets of governmental activities	<u>\$ 2,653,291</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO  
(PROPERTY OF MUNICIPALITY OF COROZAL)**

June 30, 2007

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current Assets:		
Petty cash	\$ -	\$ -
Cash in Bank	-	-
	-	-
Accounts receivable:		
Other	6,581	930
Allowance for bad debts	-	-
	6,581	930
Total current assets	6,581	930
Fixed Assets:		
Land	444,367	444,367
Buildings and improvements	5,533,562	5,533,562
Equipment, furniture and fixtures	253,200	260,805
Other	117,180	117,180
	6,348,309	6,355,914
Accumulated depreciation	(1,068,269)	(916,227)
Total fixed assets	5,280,040	5,439,687
Other assets:	-	-
Total assets	\$ 5,286,621	\$ 5,440,617
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable - trade	\$ 6,581	\$ 930
Other	-	-
Total current liabilities	6,581	930
Net assets:		
Net investment in fixed assets	5,280,040	5,439,687
Unrestricted	-	-
Net assets	5,280,040	5,439,687
Total liabilities and net assets	\$ 5,286,621	\$ 5,440,617

The accompanying notes are integral part of the financial statements. See Independent Auditor's Report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO  
(PROPERTY OF MUNICIPALITY OF COROZAL)**

**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2007</u>	<u>2006</u>
<b>REVENUES:</b>		
Admission fee	\$ 19,252	\$ 35,935
Rental fee	14,231	-
Other income - municipal participation	<u>254,081</u>	<u>185,258</u>
Total revenues	287,564	221,193
<b>EXPENSES:</b>		
Operating and maintenance	288,650	221,676
Depreciation	158,561	159,647
Other	<u>-</u>	<u>-</u>
COST OF OPERATIONS	<u>447,211</u>	<u>381,323</u>
EXCESS COSTS OVER REVENUES	(159,647)	(160,130)
OTHER	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	(159,647)	(160,130)
Prior Period Adjustments	-	-
BEGINNING NET ASSETS	<u>5,439,687</u>	<u>5,599,817</u>
ENDING NET ASSETS	<u>\$ 5,280,040</u>	<u>\$ 5,439,687</u>

The accompanying notes are integral part of the financial statements. See Independent Auditor's Report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO  
(PROPERTY OF MUNICIPALITY OF COROZAL)**

**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (159,647)	\$ (160,130)
Depreciation expenses	158,561	159,647
(Increase) Decrease in accounts receivable -	(5,651)	1,430
Increase (Decrease) in accounts payable - trade	5,651	(1,430)
Other items	-	(362)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>(1,086)</u>	<u>(845)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in other equipment	<u>1,086</u>	<u>845</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>1,086</u>	<u>845</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	-	-
<b>CASH AT BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>
<b>CASH AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are integral part of the financial statements. See Independent Auditor's Report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO  
NOTES TO BASIC FINANCIAL STATEMENTS**

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# MUNICIPALITY OF COROZAL COMMONWEALTH OF PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

### NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Corozal of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1795 with full legislative, fiscal and administrative powers to operate as a government.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature (fourteen members), which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

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

#### A. New Financial Reporting Model and Component Units

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). This statement established new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below on July 1, 2002. These statements require the reporting of new financial information and restructure much of the information that governments have reported in the past. Comparability with financial statements issued prior to June 30, 2003 has been affected significantly.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the management discussion and analysis (MD&A).

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2007, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions,

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**A. New Financial Reporting Model and Component Units (Cont.)**

(2) GASB Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments: Omnibus, (3) GASB Statement No. 38 - Certain Financial Statement Note Disclosures and (4) GASB Interpretation No. 6 -Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

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

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

The Historic and tourist Center of Cibuco (a proprietorship fund) is considered a component unit of the Municipality of Corozal and the discrete presentation method was elected for financial statement presentation.

**B. Government-wide and fund financial statements**

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

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

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**B. Government-wide and fund financial statements (Cont.)**

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

Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

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

**Debt Service Fund** – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

**Capital Project Fund** – is used to account for the financial resources allocated for the acquisition or construction of infrastructure and other major capital facilities.

**Joint Resolutions Fund** – is used to account for Commonwealth of Puerto Rico appropriations for specific purposes.

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

Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.

Notes to the budgetary comparison schedule – general fund.

**C. Financial reporting presentation**

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

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

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**C. Financial reporting presentation (Cont.)**

**Special Revenue Funds** - used to account for revenues derived from grants or other restricted revenue sources. The uses, and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Funds** - are used to account for the accumulation of resources for and the payment of, general long-term debt principal interest, and related costs.

**Capital Projects Funds** - are used to account for financial resources used for the acquisition or construction of major capital facilities.

**Proprietary Funds** - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Historic and Tourist Center of Cibuco.

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

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

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. All other revenue items are considered to be measurable and available only when the government

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**D. Measurement focus, basis of accounting and financial statement presentation (Cont.)**

receives cash. 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 Municipality has elected not to follow subsequent private-sector guidance.

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, if any. 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, then unrestricted resources, as they are needed.

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**E. Assets, liabilities and net assets**

1. Cash, cash equivalents, and cash with fiscal agent - The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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. Cash with fiscal agent in the capital project fund consists of unused proceeds of bonds and notes issued for the acquisition and construction of major capital improvements.

2. Receivables and payables - Activity between funds that are representative of lending/borrowing, arrangements outstanding at the end of the fiscal year are referred to as either "due to/from".

As of June 30, 2007 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$1,352,979
PR Telephone Company	48,653
PR Sewer and Sanitary Authority	37,598
PR General Services Administration	4,406
PR Treasury Department	1,715
PR Labor Department	3,221
PR Retirement System	<u>197,610</u>
	<u>\$1,646,182</u>

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**E. Assets, liabilities and net assets (Cont.)**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes.

3. Capital assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<b>Description</b>	<b>Years</b>
Buildings	50
Infrastructure	10
Building and site improvements	25
Vehicles	10
Furniture and fixtures	7
Machinery and equipment	7

4. Long-term obligations - The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long term liabilities, such as vacation, sick leave, litigation.

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

5. Compensated absences - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

6. Claims and judgments - The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

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**E. Assets, liabilities and net assets (Cont.)**

7. Reservations of fund balance - Reservations of fund balance in the fund financial statements, 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:

- a. Capital Projects - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. Advances and Other Specified Purposes - Represents net assets available for specific use under federal grant programs, reservation of monies set aside for long-term receivables which are not considered current financing resources or other long-term assets.
- d. Debt Service Fund - Represents net assets available to finance future debt service payments.
- e. Inventory - Represents inventory that does not represent available financial resources.
- f. Other - Represents net assets legally segregated for other specific future use.

8. Interfund and intra-entity transactions - The Municipality has the following types of transactions among funds:

- a. Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. Intra-Entity Transactions - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

9. Risk financing - The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2007 amounted to \$163,435. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$175,790 for workers compensation insurance covering all municipal employees.

10. Pursuant to and determined by an internal cost allocation plan certain costs initially borne by the General Fund are then billed as direct charges to other funds of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balances General Fund as charges for services. The corresponding expenses appear as function/program costs in the Statement of Activities.

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**NOTE 2. 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. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$1,175,024 in the general fund were fully collateralized at June 30, 2007. In the other governmental funds there were deposits with commercial banks of \$131,296, \$362,735 and \$665,941 respectively, that were fully collateralized.

The deposits at GDB of \$717,038 restricted principally for capital projects, and the \$1,247,037 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental bank.

Investments represents certificate of deposits in the following institutions:

Banco Popular de P.R. (No. 11100001-23)	\$3,046,371
Government Development Bank of P.R. (No. 25)	<u>714,527</u>
Total	<u>\$3,760,898</u>

**NOTE 3. RECEIVABLES**

**a. Volume of Business Tax** - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2007, the tax rates were as follows:

Financial business – 1.50% of annual gross revenues

Other organizations – 0.50% for annual gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2007, net of allowance for uncollectible.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

**b. Due from other governments** - Intergovernmental receivable in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") \$1,352,979. This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes; and \$130,000 due from Puerto Rico Government for reimbursement of employee benefits.

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**NOTE 3. RECEIVABLES (Cont.)**

Due from other government in the other governmental funds are the following:

U.S. Department of HHS - Title III Elderly Centers	\$ 62,597
U.S. Department of Justice (Cops)	52,903
Commonwealth of PR - "Codigo de Orden Publico"	78,471
Commonwealth of PR - Department of Labor (Law 52 & 82)	322,264
Commonwealth of PR - Community Development Program	<u>35,241</u>
	<u>\$ 551,476</u>

c. **Other** – Other accounts receivable as of June 30, 2007 are as follows:

	<b>Governmental Type Fund</b>		
	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Component Unit</b>
Property Tax	\$ 218,413	\$ 19,148	
Other			\$ 6,581

**NOTE 4. INTER FUND TRANSACTIONS**

Inter fund – receivables and payables at June 30, 2007 are summarized as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General	\$ 632,551	\$1,356,439
Other Governmental	198,909	632,551
Joint Resolutions	192,690	-0-
Capital Project	<u>964,840</u>	<u>-0-</u>
Total	<u>\$1,988,990</u>	<u>\$1,988,990</u>

**NOTE 5. CAPITAL ASSETS**

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in current year, including those changes for infrastructure and construction in-progress pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

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	Balance June 2006	Additions (Retirements)	Balance June 2007
<b>Governmental Activities:</b>			
Capital asset, not being depreciated:			
Land	\$ 10,647,924	69,145	\$ 10,717,069
Construction in progress	1,037,495	545,320	1,582,815
Total capital assets not being depreciated	<u>11,685,419</u>	<u>614,465</u>	<u>12,299,884</u>
Capital assets, being depreciated:			
Buildings and building improvements	16,657,589	141,820	16,799,409
Site improvements	972,381	(22,751)	949,630
Infrastructure	5,878,290	1,110,599	6,988,889
Equipment	710,212	38,212	748,424
Vehicles	5,787,784	55,494	5,843,278
Total capital assets being depreciated	<u>30,006,256</u>	<u>1,323,374</u>	<u>31,329,630</u>
Less accumulated depreciation for:			
Buildings and building improvements	4,017,442	331,398	4,348,840
Site improvements	851,467	(17,455)	834,012
Infrastructure	2,141,156	672,300	2,813,456
Equipment	597,762	16,279	614,041
Vehicles	4,180,160	(85,489)	4,094,671
Total accumulated depreciation	<u>11,787,987</u>	<u>917,033</u>	<u>12,705,020</u>
Total capital assets being depreciated, net	<u>18,218,269</u>	<u>406,341</u>	<u>18,624,610</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 29,903,688</u>	<u>\$ 1,020,806</u>	<u>\$ 30,924,494</u>
 <b>Business Type Activity:</b>			
Capital asset, not being depreciated:			
Land	\$ 444,367	-	\$ 444,367
Capital assets, being depreciated:			
Buildings and building improvements	5,533,562	-	5,533,562
Equipment	260,805	(7,605)	253,200
Vehicles	117,180	-	117,180
Total capital assets being depreciated	<u>5,911,547</u>	<u>(7,605)</u>	<u>5,903,942</u>
Less accumulated depreciation for:			
Buildings and building improvements	664,027	110,672	774,699
Equipment	217,046	29,653	246,699
Vehicles	35,154	11,717	46,871
Total accumulated depreciation	<u>916,227</u>	<u>152,042</u>	<u>1,068,269</u>
Total capital assets being depreciated, net	<u>4,995,320</u>	<u>(159,647)</u>	<u>4,835,673</u>
<b>Business Type Activity Capital assets, net</b>	<u>\$ 5,439,687</u>	<u>\$ (159,647)</u>	<u>\$ 5,280,040</u>
<b>Total Municipality Capital assets, net</b>	<u>\$ 35,343,375</u>	<u>\$ 861,159</u>	<u>\$ 36,204,534</u>

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**NOTE 6. PROPERTY TAXES**

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 CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate 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 estimated 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. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. A receivable of \$218,413 is reported as of June 30, 2007.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 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 compared to actual collections through fiscal year 1999-2000. The amounts that the Municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Central Government to the Municipalities are 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.

On December 3, 2002, the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances determined in \$1,133,772. As of June 30, 2007, the related unpaid property tax advances presented in the statement of net assets amounted to \$1,065,275 and is payable in periodic installments as determined by the CRIM in a 30 years period until July 1, 2032, at variable interest rate (Law 42 of 2000 as amended by law 146 of 2001).

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the 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 the Municipal Autonomous Law of 1991, the exempt amount to be paid by the 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.

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**NOTE 6. PROPERTY TAXES (CONT.)**

The annual tax rate for fiscal year 2006-07 is 8.08% for real property and 6.08% 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) 5.55% and 3.55%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics 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 a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.67% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the Property tax collected and such amount is accounted for similar to item (a) above.

**NOTE 7. DEFERRED REVENUES**

**a. Municipal License Tax** – The deferred revenues of \$787,217 in the general fund relates to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

**b. Federal Government** – The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

**Program Description**

Section 8 Housing Choice Vouchers	\$ 202,501
HOPWA	10,080
Federal Agriculture	7,866
FEMA	<u>57,507</u>
Total	<u>\$ 277,954</u>

**NOTE 8. LONG TERM DEBT**

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

<u>GOVERNMENTAL FUND</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Bonds payable	\$4,392,000	\$	\$ 205,000	\$4,187,000	\$ 217,000
Notes payable	285,000		20,000	265,000	20,000
Advances CRIM - Law 42	1,073,846		8,571	1,065,275	17,946
Advances CRIM - Law 146	305,931		28,745	277,186	11,087
Loan PR Treasury Dept.	47,339		12,138	35,201	12,138
US Dep. of Agriculture	<u>1,158,117</u>	116,840	-0-	<u>1,274,957</u>	<u>87,000</u>
	7,262,233			7,104,619	<u>365,171</u>
Compensated absences	<u>1,574,694</u>		59,754	<u>1,514,940</u>	<u>599,481</u>
	<u>\$8,836,927</u>			<u>\$8,619,559</u>	<u>\$964,652</u>

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

**NOTE 8. LONG TERM DEBT (CONT.)**

**Bonds payable** – The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality did not issued new bonds. Bonds payable outstanding at June 30, 2007 are as follows:

Bonds payable from the ad valorem property tax of 1.67% which is restricted for debt service fund:

	<u>Outstanding Amount</u>
\$1,310,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026, with interest ranging from 2.7% to 5.6%	\$ 1,195,000
\$250,000 - 1983 serial bonds due in annual installments of \$2,000 to \$25,000, through July 1, 2009; (USDA) with interest at 9.75%	47,000
\$1,320,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026, with interest ranging from 5.0% to 8.0%	1,210,000
\$470,000 - 2005 serial bonds due in annual installments of \$10,000 to \$30,000, through July 1, 2029, with interest ranging from 3.27% to 5.0%	450,000
\$715,000 - 2006 serial bonds due in annual installments of \$90,000 to \$125,000, through July 1, 2011, with interest ranging from 3.27% to 5.0%	535,000
Bonds payable from the General Fund:	
\$305,000 - 2005 serial bonds due in annual installments of \$25,000 to \$40,000, through July 1, 2014, with interest at 5.0%	255,000
\$505,000 - 2005 serial bonds due in annual installments of \$10,000 to \$40,000, through July 1, 2030, with interest at 5.0%	<u>495,000</u>
Total bonds payable	<u>\$4,187,000</u>

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

**NOTE 8. LONG TERM DEBT (CONT.)**

**Notes payable** – The proceeds of the issuance of notes payables were used principally to the acquisition and improvement of major capital assets. Notes payable outstanding at June 30, 2007 are as follows:

	<u>Outstanding Amount</u>
\$400,000 - special lottery fund loan payable in quarterly installments of \$10,000 to \$40,000 through July 1, 2016; with interest at 8.0% payable from operational fund	\$ <u>265,000</u>
Total bonds and notes payable	<u>\$ 4,452,000</u>

Annual debt service requirements to maturity for bonds and notes payable are as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
June 30,		
2008	\$ 237,000	\$ 256,841
2009	255,000	243,133
2010	240,000	228,371
2011	265,000	215,051
2012	285,000	166,433
2013-17	880,000	694,113
2018-22	855,000	489,380
2023-27	1,215,000	225,137
2028-32	<u>220,000</u>	<u>20,530</u>
Total	<u>\$ 4,452,000</u>	<u>\$2,538,989</u>

**Loan PR Treasury Department** – This amount represents a payment plan for advances in excess of property taxes collected as of June 30, 1993. The original debt of \$182,072 is amortized with annual installments of \$12,138 in a 15 years period until July 1, 2009; no interest charge is made (Law 80 of 1991).

Annual debt service requirements to maturity for Loan from PR Treasury Department are as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
June 30,		
2008	\$ 12,138	-
2009	12,138	-
2010	<u>10,925</u>	<u>-</u>
Total	<u>\$ 35,201</u>	<u>\$ -</u>

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

**NOTE 8. LONG TERM DEBT (CONT.)**

**Advances from- CRIM'**- This amount represents the balance owed to CRIM at June 30, 2007 as described in Note 6, which will be repaid through a financing obtained by the CRIM with GDB, as authorized by law and as explained in this Note. The original debt of \$1,133,772, of Law 42 is amortized in periodic installments as scheduled below, the balance due under Law 146 is payable as determined by the CRIM during a 30 years period until July 1, 2032, with variable interest rate (Law 42 of 2000, as amended by Law 146 of 2001).

Annual debt service requirements to maturity for Advances from CRIM Law 42 are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
June 30,		
2008	\$ 17,946	\$ 65,640
2009	19,073	64,513
2010	20,271	63,315
2011	21,545	62,042
2012	22,899	60,687
2013-17	137,969	279,960
2018-22	187,115	230,815
2023-27	253,763	164,165
2028-32	<u>384,694</u>	<u>75,030</u>
Total	<u>\$ 1,065,275</u>	<u>\$ 1,066,167</u>

**Compensated absences** – The government-wide statement of net assets includes \$1,514,940 of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**U.S. Department of Agriculture** - \$1,300,000 interim construction loan payable to Rural Development approved until September 28, 2007. Loan advances received amounted to \$1,274,957. The advances from governmental bank requires payment of interest at 4.875%. A balance of \$483,934 of accrued interest payable for this obligation is reported as of June 30, 2007, it is included as part of the debt service fund. The effective date for reschedule agreement is January 1, 2008, when the final bond will be prepared by the PR Government Development Bank.

**NOTE 9. PENSION PLAN**

The Employees' Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

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

**NOTE 9. PENSION PLAN (CONT.)**

Members who have attained 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. No benefits are payable if the participant receives a refund of his /her accumulated contributions.

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 Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total contributions during the year ended June 30, 2007 amounted to \$386,415.

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

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

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, Minillas Station, P.O. Box 42005, San Juan, PR 00940

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

**NOTE 10. RISK MANAGEMENT**

The Finance Department of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**NOTE 11. COMMITMENTS**

- a. Operating Leases – The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2007, amounted to \$72,470. Management believes that the summary of the future minimum rental commitments under non cancelable real property and equipment lease with terms exceeding one year is not significant.
- b. Construction – The Municipality has commitments at June 30, 2007 in the amount of \$3,041,086 for the construction of the Convention Center, Casa Loydi, and other construction projects.

**NOTE 12. CONTINGENCIES**

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

**NOTE 13. PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments and reclassifications were required to convert June 30, 2006 Financial Statements Fund Balances of the Municipality of Corozal to an estimated GASB-34 basis of accounting as of this date.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>	<b>VARIANCE WITH FINAL BUDGET Positive(Negative)</b>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RESOURCES (inflows):</b>				
Property Taxes	\$ 1,468,682	\$ 1,468,682	\$ 1,539,669	\$ 70,987
Volume of Business Taxes	1,000,000	1,000,000	1,061,393	61,393
Government of P.R. Contributions	4,946,401	5,298,198	5,217,554	(80,644)
Contributions in lieu of taxes	1,339,632	1,339,632	1,339,632	-
Construction Tax	375,000	375,000	339,526	(35,474)
Rent	75,000	75,000	88,034	13,034
Interest	150,000	150,000	215,204	65,204
Other	335,500	662,864	505,058	(157,806)
	<u>9,690,215</u>	<u>10,369,376</u>	<u>10,306,070</u>	<u>(63,306)</u>
<b>Amounts available for appropriations</b>				
<b>CHARGES TO APPROPRIATIONS (out flows):</b>				
Municipal Concl	115,885	101,828	92,837	8,991
Mayor office	529,480	625,729	624,120	1,609
Finance	3,349,702	4,453,340	4,462,696	(9,356)
Public work	1,749,663	1,901,307	1,853,856	47,451
Health	458,332	458,331	458,331	-
Emergency management	365,511	267,294	265,787	1,507
Municipal Police	484,845	201,657	197,894	3,763
Personnel	137,321	97,694	95,777	1,917
Sports and recreation	304,132	295,851	294,959	892
Sanitation	1,150,075	882,568	880,401	2,167
Elderly Centers	111,826	91,353	90,333	1,020
Municipal Secretary	104,688	79,392	78,704	688
Public Relations	138,117	214,744	213,164	1,580
Internal Auditor	51,852	35,566	35,507	59
Purchases Department	97,523	100,231	99,252	979
Planning and Development	27,813	28,982	28,982	-
Vice-Mayor	65,143	54,837	54,731	106
Citizen Help	118,119	127,358	125,422	1,936
Historical Turistic Center of Cibuco	274,148	295,816	288,650	7,166
Recicling	56,040	55,498	55,498	-
	<u>9,690,215</u>	<u>10,369,376</u>	<u>10,296,901</u>	<u>72,475</u>
<b>Total charges to appropriations</b>				
Excess (deficiency) resources over charges	\$ -	\$ -	\$ 9,169	\$ 9,169

The accompanying notes are integral part of the financial statements. See auditor's report.

**MUNICIPALITY OF COROZAL**  
**COMMONWEALTH OF PUERTO RICO**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET Positive(Negative)
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RESOURCES (inflows):</b>				
Property Taxes	\$ 291,665	\$ 291,665	\$ 347,183	\$ 55,518
Interest	-	-	50,669	50,669
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriations	<u>291,665</u>	<u>291,665</u>	<u>397,852</u>	<u>106,187</u>
<b>CHARGES TO APPROPRIATIONS (out flows):</b>				
Long term loan amortization	120,453	120,453	170,000	(49,547)
Interest on long term debt	171,212	171,212	174,244	(3,032)
Transfer of interest earned to General Fund	-	-	49,933	(49,933)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>291,665</u>	<u>291,665</u>	<u>394,177</u>	<u>(102,512)</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,675</u>	<u>\$ 3,675</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**NOTES TO BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2007**

**NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Control**

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

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

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

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

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>2007 EXPENDITURES</u>	<u>2006 EXPENDITURES</u>
<b>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Direct Programs:				
Housing Choise Voucher	14.871	MP	\$ 536,687	\$ 621,493
Indirect Program:				
Passed through P.R. Office of Municipal Affairs				
Housing Opportunities for Persons with Aids (HOPWA)	14.241		26,628	18,593
State Block Grant Program (SBGP)	14.228	MP	<u>823,527</u>	<u>443,550</u>
Total US Department of Housing and Urban Development			<u>1,386,842</u>	<u>1,083,636</u>
<b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through P.R. Elderly Commission				
Title III, Part C, Nutrition Services	93.045		<u>91,950</u>	<u>211,350</u>
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>				
Direct Program:				
Public Assistance Grants	83.544		<u>188,819</u>	<u>355,842</u>
<b>US DEPARTMENT OF JUSTICE</b>				
Direct Program:				
Public Safety Partnership and Community Policing Grants (Cops)	16.710		<u>201,328</u>	<u>331,523</u>
<b>FEDERAL TRANSPORT ADMINISTRATION</b>				
Passed trough Commonwealth of Puerto Rico				
Department of Transportation and Public Works (5311) (PR 18-X017)	20.500		<u>14,725</u>	<u>111,283</u>
<b>US DEPARTMENT OF AGRICULTURE</b>				
Passed through Caguas Area Office				
Rural Economic Development Loans and Grants				
Federal Agriculture	10.854		<u>35,216</u>	<u>37,714</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 1,918,880</u>	<u>\$ 2,131,348</u>

MP = Major Program

The accompanying notes are integral part of the financial statements. See auditor's report.

**MUNICIPALITY OF COROZAL  
COMMONWEALTH OF PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2007**

**NOTE 1. GENERAL**

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

**NOTE 2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund under the accrual basis of accounting. Expenditures in the Schedule of Expenditures of Federal Awards are presented in the cash basis of accounting.

**NOTE 3. FEDERAL CFDA NUMBER**

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

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

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

We have audited the financial statements of the Municipality of Corozal as of and for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

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

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Corozal ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions in federal award are described in the accompanying schedule of findings and questioned costs Section II and also we have reported to the management of Municipality of Corozal those reportable condition that affect the internal control of the Municipality operations in a separate letter.

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

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

  
Juan A. Rivera, CPA  
Lic. #2214

December 14, 2007  
Toa Baja, Puerto Rico



Stamp No. 2278120 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

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

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

**Compliance**

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

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

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Corozal complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

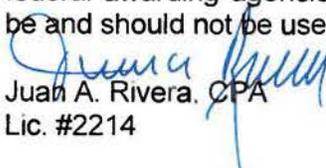
**Internal Control Over Compliance**

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

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

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

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

  
Juan A. Rivera, CPA  
Lic. #2214

December 14, 2007  
Toa Baja, Puerto Rico

Stamp No. 2278121 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



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

**I. Summary of Auditors' Result**

Financial Statements

Type of auditor's report issued: unqualified opinion

Internal Control over financial reporting:

Material weakness (es) identified?                     Yes             No

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

Noncompliance material to financial statements noted?                     Yes             No

Federal Awards

Internal Control over major programs:

Material weakness (es) identified?                     Yes             No

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.228	State Block Grant Program
14.871	Housing 8 Voucher and Portability

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

Auditee qualified as low-risk auditee?                     Yes             No

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

**Section 8 Federal Awards Findings and Questioned Costs**

My examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2007 disclosed that grants funds were administered in a satisfactory manner, except for the following situation:

Section 8 Housing Voucher  
CFDA No. 14.871

Condition 06-1

**Cash Management**

The Section 8 maintained a large bank account balance as of June 30, 2007.

**Criteria**

Code of Federal Regulation 24 §85.21 (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101-453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury-State Agreements or the CMIA default procedures codified at 31 CFR part 205, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs."

**Cause**

The Municipality did not make payments as soon as they receive the funds.

**Effect**

The Municipality does not follow the procedures established by federal law.

**Recommendation**

Establish the procedures needed to disburse payments within a reasonable time after receive the funds from HUD as the Federal Regulation established.

**Auditee Response**

Municipal authorities in conjunction with its financial advisor will establish the appropriate procedures and internal control to comply with cash management requirement.

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

<b>Program</b>	<b>Finding/ Compliance</b>	<b>Status</b>
Housing Voucher CFDA No. 14.871	Condition 06-1 Date When tenant entered in the waiting list not included in the 50058	Corrected
Housing Voucher CFDA No. 14.871	Condition 06-3 Utility Allowance Schedule not included in the tenant's file	Corrected
Housing Voucher CFDA No. 14.871	Condition 06-4 Not evidence of the Reasonable Rent calculations	Corrected
Housing Voucher CFDA No. 14.871	Condition 04-4, 05-3 The utility allowances table was not update	Corrected
Housing Voucher CFDA No. 14.855	Condition 04-3, 05-2, 06-2 Housing Quality Standards (HQS) correction follow up	Corrected
Housing Voucher CFDA No. 14.871	Condition 04-4, 05-3 The utility allowances table was not update	Corrected