

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE COROZAL
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008**



JUAN RIVERA, CPA
Certified Public Accountant

Ave. Del Valle Levittown, P.R. 00949
T. 787-784-2255 / F. 787-784-2250 / jrmelecio@hotmail.com

Corozal (24)

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MUNICIPALITY OF COROZAL COMMONWEALTH OF PUERTO RICO

Independent Auditors' Report

Basic Financial Statements and
Supplemental Schedules

Year Ended June 30, 2008

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**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2008**

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**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
ENDED JUNE 30, 2008

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JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

Phone: 787-784-2255
Fax: 787-784-2250
Email: jrmelecio@hotmail.com

URB LEVITTOWN, 1818 DEL VALLE AVE, TOA BAJA, PR 00949

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, 2008, 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.

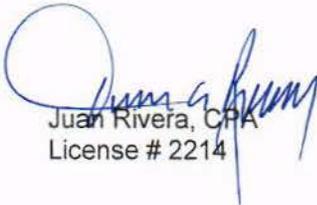
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes 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 Aibonito of the Commonwealth of Puerto Rico, as of June 30, 2008, 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 5, 2008 on our 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 our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose 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 accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Juan Rivera, CPA
License # 2214

December 5, 2008
Toa Baja, Puerto Rico

Stamp No. # 2384886 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, 2008. 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 \$2,372,635.

The Municipality Business Type Activities net assets decreased by \$126,871 due to depreciation charges of \$127,419 and other operational net items of \$548. The Business Type Activities revenue from Municipality contributions decreased \$57,550 or 22.6%.

In the fund financial statements, the governmental revenue increased \$1,109,168 (or 7.2%) while governmental expenditures increased \$942,016 (or 6.8%).

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, an increase of \$145,918.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, increased by \$949,022.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$705,954.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, increased by \$477,364.

On a budgetary basis, actual expenditures exceeded actual revenues by \$718,317.

Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure amounted to \$1,990,809.

During current year the Municipality issued \$98,359 in long term debt.

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**

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 detail 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 \$31,161,973 at the end of current year, compared to \$28,789,338 at the end of the previous- year; this increase of \$2,372,635 represents the operational result of excess revenues over expenditures. The net assets of the proprietary business type activities totaled \$5,153,169 at the end of current year, compared to \$5,280,040 at the end of the previous- year; this decrease of \$126,871 was due to depreciation charges of \$127,419 and other operational net items of \$548.

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, representing the net amount of \$25,371,820. 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 (\$1,174,985), amount restricted for encumbrances (\$1,011,833) and amounts restricted for capital projects (\$4,695,622), 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, 2008 and 2007**

	Govenmental Activities		Component Unit	
	2008	2007	2008	2007
Current assets	\$ 9,186,661	\$ 8,387,910	\$ 1,524	\$ 6,581
Capital assets-net	31,396,820	30,924,494	5,153,169	5,280,040
Other assets	<u>3,010,727</u>	<u>1,964,075</u>	<u>-</u>	<u>-</u>
Total assets	<u>43,594,208</u>	<u>41,256,479</u>	<u>5,154,693</u>	<u>5,286,621</u>
Current liabilities	4,175,563	4,812,234	1,524	6,581
Noncurrent liabilities	<u>8,256,672</u>	<u>7,654,907</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>12,432,235</u>	<u>12,467,171</u>	<u>1,524</u>	<u>6,581</u>
Invested in capital assets, net of related debt	25,371,820	25,197,537	5,153,169	5,280,040
Unrestricted – (deficit)	(1,881,488)	(1,347,535)		
Restricted	<u>7,671,641</u>	<u>4,939,336</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 31,161,973</u>	<u>\$ 28,789,338</u>	<u>\$ 5,153,169</u>	<u>\$ 5,280,040</u>

Changes in Net Assets

The Municipality's governmental activities net assets increases by \$2,372,635; due to excess revenues over expenses of \$2,502,737 less a prior period adjustment of \$130,102. Approximately 25 percent of the Municipality's revenue came from taxes, while 69 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 \$1,109,168 (7.2%) while expenses increased \$1,259,722 (9.9%). The Municipality's expenses cover a range of services. The largest expenses were for general government administration, sanitation, public works, housing, municipal police and depreciation.

The Business type activities net assets decreased by \$126,871 due to depreciation charges of \$127,419 and other operational net items of \$548. 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 decreased \$57,550 or 22.7%.

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

**Condensed Statement of Activities
For the years ended June 30, 2008 and 2007**

GOVERNMENTAL ACTIVITIES:

	<u>2008</u>	<u>2007</u>
Program revenues:		
Charges for services	\$ 860,703	\$ 534,584
Operating grants and contributions	1,974,359	2,115,602
Capital grants and contributions	2,747,470	2,947,995
General revenues:		
Property taxes	1,866,000	1,886,852
Municipal license tax	1,060,114	1,053,405
Sales taxes	1,168,861	-
Interest and investment earnings	169,340	262,311
Grants and contributions not restricted	6,633,603	6,570,533
Total revenues	<u>16,480,450</u>	<u>15,371,282</u>
Expenses		
General Administration	5,348,272	5,058,188
Health	458,331	458,331
Housing	728,480	578,588
Emergency management and safety	928,563	630,993
Sports and recreation	335,839	294,959
Sanitation	1,064,883	997,402
Elderly centers	269,460	238,788
Interest on long-term debt	433,126	380,540
Depreciation	1,488,971	1,340,245
Public works	2,921,788	2,739,957
Total expenses	<u>13,977,713</u>	<u>12,717,991</u>
Excess revenues over expenses	<u>\$ 2,502,737</u>	<u>\$ 2,653,291</u>

BUSINESS TYPE ACTIVITIES:

Revenues:		
Grants and contributions	\$ 196,531	\$ 254,081
Fees	46,279	33,483
Total revenues	<u>242,810</u>	<u>287,564</u>
Expenses:		
Operating and maintenance	242,262	288,650
Depreciation	127,419	158,561
Total expenses	<u>369,681</u>	<u>447,211</u>
Excess revenue over expenses	<u>\$ (126,871)</u>	<u>\$ (159,647)</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 \$8,718,088 an increase of \$2,233,685 in comparison with the prior year. There are reservations of fund balance amounting to \$7,671,641. 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 (encumbrances) of the prior fiscal year (\$1,011,833), 2) to pay debt service (\$1,174,985), 3) to pay for capital projects (\$4,695,622) and 4) for other purposes (\$789,201). Accordingly, the unreserved fund balance amounts to \$1,046,447 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, 2008, the general fund has a balance of \$2,058,280. The fund balance of the general fund increased by \$145,918. Key factors in the increase of the fund balance are as follows:

• Excess revenues over expenditures	\$ 641,116
• Operating transfer to other governmental funds	(495,198)

Revenues increased by \$1,291,674 (13.0%) due to the sales taxes collections of \$934,819, an increase in other non-recurrent revenues of \$183,056, an increase in property taxes of \$44,369, an increase of \$45,656 in Contributions from Government of PR, and a net increase of \$83,774 in all other revenue items. Expenditures increased \$775,476 (7.9%) due to an increase of \$385,035 for General Administration, \$175,783 increase for public works, \$180,401 for sanitation, \$134,435 for Municipal Police, and a net decrease of (\$100,178) for all other expenditures categories.

The **Capital Project Fund** Balance, which is reserved for major capital expenditures, reflected an increase of \$705,954 due to excess revenues over expenditures of \$225,647 and transfers from the general fund of \$480,307. Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure in this fund amounted to \$1,564,826.

The **Joint Resolutions Fund** balance increased by \$949,022 due to excess revenues over expenditures.

The **Debt Service Fund** balance reported an increase of \$477,364 as a result of excess revenues over expenditures of \$67,466, the reclassification of \$510,000 in accrued interest payable to US Rural Development which were refinanced as a long term debt and other prior period adjustments of \$100,102.

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

Other Governmental Funds balances decreased by \$44,573 mainly for excess expenditures over revenues of \$109,455 and transfers from other governmental funds of \$64,882.

Business-type Activities net assets decreased by \$126,871. Revenues of the Municipality's business-type activities reported \$242,810 while expenses amounted to \$369,681, including a charge for depreciation of \$127,419. Business Type Activities fee revenue increased \$12,796 (38.2%) while revenue from Municipality contributions decreased \$57,550 (22.6%). Total expenses decreased by \$77,530 (17.3%).

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 over budget by \$141,194 and actual expenditures were under budget by \$190,489, for a net favorable variance of \$331,683. The individual variances between budget and actual results were not significant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets, including business type activities, as of June 30, 2008, amounts to \$51,939,668, with accumulated depreciation of \$15,389,679, leaving a net book value of \$36,549,989; of which \$36,204,534 are used for governmental activities and \$345,455 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 \$1,990,809 for the year. Depreciation charges for the year totaled \$1,616,390, of which \$1,488,971 are related to governmental activities and \$127,419 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, 2008 the Municipality has \$1,115,769 of unexpended proceeds from bond issuances and \$3,579,853 from other sources, for a total of \$4,695,622 that are committed to future construction activities, including completion of the Convention Center, the reconstruction of Casa Loidy 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, 2008 the Municipality issued \$98,359 in long term debt. As of June 30, 2008 the Municipality Long Term Debt is composed as follows:

Bonds payable	\$3,970,000
Notes payable	245,000
Loan P.R. Treasury Department	23,063
Advances from CRIM	1,386,745
Loan US Department of Agriculture	<u>1,810,000</u>
	\$7,434,808

Other long term obligations consist of \$1,518,127 of accrued compensated absences such as vacations and sick leave.

As of June 30, 2008 the Municipality redemption fund (debt service) has a balance of \$1,174,985, 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**

Those factors were considered when preparing the Municipality's budget for the 2008-2009 fiscal year.

In summary all revenues and expenditures for the general fund were budgeted in \$11,608,188 which represents a net increase of \$510,470 or 4.6% in estimated revenues; and a net decrease of \$539,530 or 4.4% for expenditure appropriations. As presented in the General Fund Budgetary Comparison Schedule, the fiscal year 2007-2008 final budget consider the use of \$1,050,000 from prior years unreserved fund balance of the General Fund determined in \$1,545,067 as of June 30, 2007. For this reason the 2007-2008 budgeted expenditures exceeded budgeted revenues in the amount of \$1,050,000.

The most significant changes presented between the budget for fiscal year 2007-2008 and the one for fiscal year 2008-2009 are the following:

Estimated revenues:

Increase in contributions from PR Power Authority (AEE)	\$ 240,925	(17.6%)
Increase in charges for services	190,427	(43.8%)
Increase in sales taxes	89,658	(9.8%)
Increase in PR Government contributions	92,862	(1.8%)
Increase in Property taxes	75,125	(4.9%)
Net Decrease in other estimated revenues	(178,527)	(11.2%)

Expenditure appropriations:

Increase in Municipal Police appropriations	\$ 198,318	(56.6%)
Increase in Sanitation appropriations	119,763	(10.5%)
Decrease in Public Works appropriations	(1,111,338)	(34.6%)
Increase in Sports and Recreation appropriations	114,259	(33.0%)
Increase in Emergency Management appropriations	128,188	(51.5%)
Increase in Elderly Centers appropriations	69,275	(73.1%)
Increase in Recycling appropriations	13,343	(22.8%)
Increase in contributions to Historic Center (CIBUCO)	93,968	(37.8%)
Net decrease in Administrative appropriations	(165,306)	(2.7%)

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, 2008**

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	2008 TOTAL	2007 TOTAL
Current Assets:				
Cash	\$ 3,020,225	\$ -	\$ 3,020,225	\$ 2,334,996
Investment	3,804,566		3,804,566	3,760,898
Accounts receivable:				
Other	97,194	1,524	98,718	6,581
Property taxes	282,409		282,409	237,561
Due from other governments	1,982,267	-	1,982,267	2,034,455
Total current assets	<u>9,186,661</u>	<u>1,524</u>	<u>9,188,185</u>	<u>8,374,491</u>
Noncurrent Assets:				
Cash held with fiscal agent	3,010,727		3,010,727	1,964,075
Capital Assets (net of depreciation)	31,396,820	5,153,169	36,549,989	36,204,534
Total noncurrent assets	<u>34,407,547</u>	<u>5,153,169</u>	<u>39,560,716</u>	<u>38,168,609</u>
TOTAL ASSETS	<u>43,594,208</u>	<u>5,154,693</u>	<u>48,748,901</u>	<u>46,543,100</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	511,953	1,524	513,477	536,186
Due to other governmental units	1,636,518		1,636,518	1,646,182
Deferred Revenues	938,369		938,369	1,065,171
Accrued interest on Loans	392,460		392,460	606,624
Current portion of long term debt	696,263	-	696,263	964,652
Total current liabilities	<u>4,175,563</u>	<u>1,524</u>	<u>4,177,087</u>	<u>4,818,815</u>
Noncurrent Liabilities:				
Advances from CRIM Law 42	1,047,330		1,047,330	1,065,275
Advances from CRIM Law 146	266,099		266,099	277,186
Advances from CRIM - other	73,316		73,316	-
Loan PR Treasury Department Law 80	23,063		23,063	35,201
Bonds Payable	3,970,000		3,970,000	4,187,000
Notes payable	245,000		245,000	265,000
Accrued compensated absences	1,518,127		1,518,127	1,514,940
Advances US Department of Agriculture	1,810,000	-	1,810,000	1,274,957
	8,952,935	-	8,952,935	8,619,559
Less: Reported as current portion	(696,263)	-	(696,263)	(964,652)
Total noncurrent liabilities	<u>8,256,672</u>	<u>-</u>	<u>8,256,672</u>	<u>7,654,907</u>
TOTAL LIABILITIES	<u>12,432,235</u>	<u>1,524</u>	<u>12,433,759</u>	<u>12,473,722</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	25,371,820	5,153,169	30,524,989	30,477,577
Restricted for Capital Projects	4,695,622		4,695,622	3,044,613
Restricted for Debt Service	1,174,985		1,174,985	926,048
Restricted for Other Purposes	789,201		789,201	829,807
Reserve for Encumbrances	1,011,833		1,011,833	138,868
Unrestricted - (deficit)	(1,881,488)	-	(1,881,488)	(1,347,535)
TOTAL NET ASSETS	<u>\$ 31,161,973</u>	<u>\$ 5,153,169</u>	<u>\$ 36,315,142</u>	<u>\$ 34,069,378</u>

The accompanying notes are integral part of these financial statements.

See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	2008 TOTAL	2007 TOTAL
GOVERNMENTAL ACTIVITIES:								
General Administration	5,348,272	\$ 399,834	\$ 39,768	\$ -	\$ (4,908,670)		\$ (4,908,670)	\$ (4,823,611)
Public work	2,921,788	460,869	681,406	2,747,470	967,957		967,957	1,412,038
Health	458,331				(458,331)		(458,331)	(458,331)
Emergency management	247,956				(247,956)		(247,956)	(265,645)
Municipal Police	680,607		348,125		(332,482)		(332,482)	(197,894)
Sports and recreation	335,839				(335,839)		(335,839)	(294,959)
Sanitation	1,064,883		1,311		(1,063,572)		(1,063,572)	(680,857)
Elderly Centers	269,460		175,269		(94,191)		(94,191)	(89,766)
Housing	728,480		728,480		-		-	-
Interest on Long Term Debt	433,126				(433,126)		(433,126)	(380,540)
Depreciation	1,488,971	-	-	-	(1,488,971)		(1,488,971)	(1,340,245)
Total governmental activities	13,977,713	860,703	1,974,359	2,747,470	(8,395,181)		(8,395,181)	(7,119,810)
BUSINESS TYPE ACTIVITIES:								
Operations	242,262	46,279	196,531			548	548	(1,086)
Depreciation	127,419	-	-	-		(127,419)	(127,419)	(158,561)
Total business type activities	369,681	46,279	196,531	-		(126,871)	(126,871)	(159,647)
TOTAL ACTIVITIES	\$ 14,347,394	\$ 906,982	\$ 2,170,890	\$ 2,747,470			(8,522,052)	(7,279,457)
GENERAL REVENUES:								
Property taxes, levied for general purposes					1,584,038		1,584,038	1,539,669
Property taxes, levied for debt services					281,962		281,962	347,183
Volume of business taxes					1,060,114		1,060,114	1,053,405
Sale taxes					1,168,861		1,168,861	-
Government of P.R. Contributions					5,263,210		5,263,210	5,217,554
Contributions in lieu of taxes					1,370,393		1,370,393	1,352,979
Interest					169,340	-	169,340	262,311
TOTAL GENERAL REVENUES					10,897,918	-	10,897,918	9,773,101
CHANGES IN NET ASSETS								
					2,502,737	(126,871)	2,375,866	2,493,644
Prior period adjustments					(130,102)	-	(130,102)	-
Net assets - beginning of period					28,789,338	5,280,040	34,069,378	31,575,734
Net assets - ending of period					\$ 31,161,973	\$ 5,153,169	\$ 36,315,142	\$ 34,069,378

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2008

ASSETS	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2008 TOTAL GOVERNMENTAL FUNDS	2007 TOTAL GOVERNMENTAL FUNDS
Cash	\$ 1,275,586	\$ 130,696	\$ 360,349	\$ -	\$ 1,253,594	\$ 3,020,225	\$2,334,996
Cash held with fiscal agent		391,115	1,115,769	1,503,843		3,010,727	1,964,075
Investment	2,804,566		1,000,000			3,804,566	3,760,898
Accounts receivable:							
Other	7,194					7,194	-
Property Taxes	277,278			5,131		282,409	237,561
Accrued interest receivable	20,000					20,000	-
Accrued Xmas Bonus receivable	70,000					70,000	130,000
Due from other governments	1,370,393				611,874	1,982,267	1,904,455
Due from other funds	<u>1,333,585</u>	<u>751,197</u>	<u>1,367,514</u>	<u>-</u>	<u>157,238</u>	<u>3,609,534</u>	<u>1,988,990</u>
TOTAL ASSETS	<u>\$ 7,158,602</u>	<u>\$ 1,273,008</u>	<u>\$ 3,843,632</u>	<u>\$ 1,508,974</u>	<u>\$ 2,022,706</u>	<u>\$ 15,806,922</u>	<u>\$ 12,320,975</u>

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2008

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2008 TOTAL GOVERNMENTAL FUNDS</u>	<u>2007 TOTAL GOVERNMENTAL FUNDS</u>
LIABILITIES							
Accounts payable	\$ 278,888	\$ -	\$ 93,065	\$ -	\$ -	\$ 371,953	\$ 269,605
Due to other governmental units	1,636,518					1,636,518	1,646,182
Deferred Revenues	710,496				227,873	938,369	1,065,171
Accrued employee benefits	140,000					140,000	260,000
Accrued interest and Loans payable	58,471			333,989		392,460	606,624
Due to other funds	<u>2,275,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,333,585</u>	<u>3,609,534</u>	<u>1,988,990</u>
TOTAL LIABILITIES	<u>5,100,322</u>	<u>-</u>	<u>93,065</u>	<u>333,989</u>	<u>1,561,458</u>	<u>7,088,834</u>	<u>5,836,572</u>
FUND BALANCES							
Reserved for:							
Capital Projects		945,055	3,750,567			4,695,622	3,044,613
Debt Service				1,174,985		1,174,985	926,048
Other Purposes		327,953			461,248	789,201	829,807
Encumbrances	1,011,833					1,011,833	138,868
Unreserved	<u>1,046,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,046,447</u>	<u>1,545,067</u>
TOTAL FUND BALANCES	<u>2,058,280</u>	<u>1,273,008</u>	<u>3,750,567</u>	<u>1,174,985</u>	<u>461,248</u>	<u>8,718,088</u>	<u>6,484,403</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,158,602</u>	<u>\$ 1,273,008</u>	<u>\$ 3,843,632</u>	<u>\$ 1,508,974</u>	<u>\$ 2,022,706</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						31,396,820	30,924,494
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds						<u>(8,952,935)</u>	<u>(8,619,559)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES						<u>\$ 31,161,973</u>	<u>\$ 28,789,338</u>

The accompanying notes are integral part of these 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, 2008**

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2008 TOTAL GOVERNMENTAL FUNDS</u>	<u>2007 TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:							
Property taxes	\$ 1,584,038	\$ -	\$ -	\$ 281,962	\$ -	\$ 1,866,000	\$ 1,886,852
Volume of Business Taxes	1,060,114					1,060,114	1,053,405
Government of P.R. Contributions	5,263,210	1,055,356	828,616		375,845	7,523,027	7,663,009
Contributions in lieu of taxes	1,370,393					1,370,393	1,352,979
Grants and contributions	-		863,498		1,598,514	2,462,012	2,068,906
Sales taxes	934,819			234,042		1,168,861	468,740
Charges for services	460,869					460,869	316,328
Rent	67,525					67,525	69,003
Interest	128,230			41,110		169,340	262,311
Miscellaneous	332,309	-	-	-	-	332,309	229,749
TOTAL REVENUES	<u>11,201,507</u>	<u>1,055,356</u>	<u>1,692,114</u>	<u>557,114</u>	<u>1,974,359</u>	<u>16,480,450</u>	<u>15,371,282</u>
EXPENDITURES:							
General Administration	5,337,069				8,504	5,345,573	4,955,321
Public work	2,085,137	17,746			818,905	2,921,788	2,739,957
Health	458,331					458,331	458,331
Emergency Management	247,851				105	247,956	267,386
Municipal Police	332,329				348,278	680,607	363,607
Sports and recreation	335,839					335,839	294,959
Sanitation	1,060,802				4,081	1,064,883	997,402
Elderly Centers	93,999				175,461	269,460	238,788
Housing					728,480	728,480	578,588
Capilal Outlay	337,395	88,588	1,564,826			1,990,809	2,252,181
Principal Retirement on Long Term Debt	96,170			182,000		278,170	285,946
Interest on Long Term Debt	175,469	-	-	257,657	-	433,126	380,540
TOTAL EXPENDITURES	<u>10,560,391</u>	<u>106,334</u>	<u>1,564,826</u>	<u>439,657</u>	<u>2,083,814</u>	<u>14,755,022</u>	<u>13,813,006</u>
EXCESS REVENUES OVER EXPENDITURES	<u>641,116</u>	<u>949,022</u>	<u>127,288</u>	<u>117,457</u>	<u>(109,455)</u>	<u>1,725,428</u>	<u>1,558,276</u>

The accompanying notes are integral part of these 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, 2008

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2008 TOTAL GOVERNMENTAL FUNDS</u>	<u>2007 TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES):							
Capital related debt issued	\$ -	\$ -	\$ 98,359	\$ -	\$ -	\$ 98,359	\$ 116,841
Transfers	(495,198)	-	480,307	(49,991)	64,882	-	-
TOTAL OTHER FINANCING SOURCES	<u>(495,198)</u>	<u>-</u>	<u>578,666</u>	<u>(49,991)</u>	<u>64,882</u>	<u>98,359</u>	<u>116,841</u>
NET CHANGES IN FUND BALANCES	145,918	949,022	705,954	67,466	(44,573)	1,823,787	1,675,117
Prior periods adjustments:							
Reclassification				510,000		510,000	-
Other				(100,102)		(100,102)	-
FUND BALANCES, BEGINNING OF YEAR	<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>
FUND BALANCES, END OF YEAR	<u>\$ 2,058,280</u>	<u>\$ 1,273,008</u>	<u>\$ 3,750,567</u>	<u>\$ 1,174,985</u>	<u>\$ 461,248</u>	<u>\$ 8,718,088</u>	<u>\$ 6,484,403</u>

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

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, 2008

	<u>2008</u>
Net changes in fund balances - total governmental funds	\$ 1,823,787
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 (\$1,990,809) exceed depreciation expense (\$1,488,971) in the current period.	501,838
Other reconciling items	(2,699)
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 (\$278,170) exceeded proceeds (\$98,359).	<u>179,811</u>
Changes in net assets of governmental activities	<u>\$ 2,502,737</u>

**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,

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Petty cash	\$ -	\$ -
Cash in Bank	-	-
	-	-
Accounts receivable:		
Other	1,524	6,581
Allowance for bad debts	-	-
	1,524	6,581
Total current assets	1,524	6,581
Fixed Assets:		
Land	444,367	444,367
Buildings and improvements	5,533,562	5,533,562
Equipment, furniture and fixtures	253,749	253,200
Vehicles	117,180	117,180
	6,348,858	6,348,309
Accumulated depreciation	(1,195,689)	(1,068,269)
Total fixed assets	5,153,169	5,280,040
Other assets:	-	-
Total assets	\$ 5,154,693	\$ 5,286,621
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - trade	\$ 1,524	\$ 6,581
Other	-	-
Total current liabilities	1,524	6,581
Net assets:		
Net investment in fixed assets	5,153,169	5,280,040
Unrestricted	-	-
Net assets	5,153,169	5,280,040
Total liabilities and net assets	\$ 5,154,693	\$ 5,286,621

The accompanying notes are integral part of these financial statements.
See Independent Auditors' 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 THE MUNICIPALITY OF COROZAL)**

FOR THE YEAR ENDED JUNE 30,

	<u>2008</u>	<u>2007</u>
REVENUES:		
Admission fee	\$ 23,479	\$ 19,252
Rental fee	22,800	14,231
Other income - municipal participation	196,531	254,081
Total revenues	<u>242,810</u>	<u>287,564</u>
EXPENSES:		
Operating and maintenance	242,262	288,650
Depreciation	<u>127,419</u>	<u>158,561</u>
COST OF OPERATIONS	<u>369,681</u>	<u>447,211</u>
EXCESS COSTS OVER REVENUES	<u>(126,871)</u>	<u>(159,647)</u>
CHANGE IN NET ASSETS	(126,871)	(159,647)
BEGINNING NET ASSETS	<u>5,280,040</u>	<u>5,439,687</u>
ENDING NET ASSETS	<u>\$ 5,153,169</u>	<u>\$ 5,280,040</u>

The accompanying notes are integral part of these financial statements.
See Independent Auditors' 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,

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (126,871)	\$ (159,647)
Depreciation expenses	127,419	158,561
(Increase) Decrease in accounts receivable -	5,057	(5,651)
Increase (Decrease) in accounts payable - trade	(5,057)	5,651
Other items	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>548</u>	<u>(1,086)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in other equipment	<u>(548)</u>	<u>1,086</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(548)</u>	<u>1,086</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
	<u>-</u>	<u>-</u>
 NET INCREASE (DECREASE) IN CASH	<u>-</u>	<u>-</u>
 CASH AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>
 CASH AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are integral part of these financial statements.
See Independent Auditors' 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, 2008

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. 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, 2008, 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 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 additional 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 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). Other supplementary information presented in this report for purposes of additional analysis consists of budgetary comparison schedules.

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, 2008, 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.

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.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(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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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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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 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.

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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. Use of estimates

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

F. 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, 2008 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$1,370,393
PR Department of Labor	1,218
PR General Services Administration	4,126
PR Sewer and Sanitary Authority	32,933
PR Treasury Department	72,383
PR Retirement System	<u>155,465</u>
	<u>\$1,636,518</u>

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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:

Description	Years
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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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, 2008 amounted to \$194,782. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$194,199 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 \$1,275,586 in the general fund were fully collateralized at June 30, 2008. In the other governmental funds there were deposits with commercial banks of \$130,696, \$360,349 and \$1,253,594 respectively, that were fully collateralized.

The deposits at GDB of \$3,010,727 restricted for capital projects, and for debt service, 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)	\$3,061,408
Government Development Bank of P.R. (No. 25)	<u>743,158</u>
Total	<u>\$3,804,566</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, 2008, 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, 2008, 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") \$1,370,393. This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes; and \$140,000 due from Puerto Rico Government for reimbursement of employee benefits.

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

U.S. Department of Justice (Cops)	\$ 175,697
Commonwealth of PR - "Codigo de Orden Publico"	54,056
Commonwealth of PR - Department of Labor (Law 52 & 82)	268,518
Commonwealth of PR - Community Development Program	<u>113,603</u>
	<u>\$ 611,874</u>

c. **Other** – Other accounts receivable as of June 30, 2008 are as follows:

	Governmental Type Fund		
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Component Unit</u>
Property Tax	\$277,278	\$ 5,131	
Accrued Xmas Bonus – PR Treasury Dept.	70,000		
Other	<u>7,194</u>		<u>\$ 1,524</u>
	<u>\$354,472</u>	<u>\$ 5,131</u>	<u>\$ 1,524</u>

NOTE 4. INTER FUND TRANSACTIONS

Inter fund – receivables and payables at June 30, 2008 are summarized as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General	\$ 1,333,585	\$2,275,949
Other Governmental	157,238	1,333,585
Joint Resolutions	751,197	-0-
Capital Project	<u>1,367,514</u>	<u>-0-</u>
Total	<u>\$3,609,534</u>	<u>\$3,609,534</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 2007	Additions (Retirements)	Balance June 2008
Governmental Activities:			
Capital asset, not being depreciated:			
Land	\$ 10,717,069	(22,500)	\$ 10,694,569
Construction in progress	<u>1,582,815</u>	<u>438,415</u>	<u>2,021,230</u>
Total capital assets not being depreciated	<u>12,299,884</u>	<u>415,915</u>	<u>12,715,799</u>
Capital assets, being depreciated:			
Buildings and building improvements	16,799,409	42,457	16,841,866
Site improvements	949,630	361,310	1,310,940
Infrastructure	6,988,889	890,289	7,879,178
Equipment	748,424	79,520	827,944
Vehicles	<u>5,843,278</u>	<u>171,805</u>	<u>6,015,083</u>
Total capital assets being depreciated	<u>31,329,630</u>	<u>1,545,381</u>	<u>32,875,011</u>
Less accumulated depreciation for:			
Buildings and building improvements	4,348,840	334,236	4,683,076
Site improvements	834,012	12,702	846,714
Infrastructure	2,813,456	830,957	3,644,413
Equipment	614,041	32,983	647,024
Vehicles	<u>4,094,671</u>	<u>278,092</u>	<u>4,372,763</u>
Total accumulated depreciation	<u>12,705,020</u>	<u>1,488,970</u>	<u>14,193,990</u>
Total capital assets being depreciated, net	<u>18,624,610</u>	<u>56,411</u>	<u>18,681,021</u>
Governmental activities capital assets, net	<u>\$ 30,924,494</u>	<u>\$ 472,326</u>	<u>\$ 31,396,820</u>
Business Type Activity:			
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	253,200	549	253,749
Vehicles	<u>117,180</u>	<u>-</u>	<u>117,180</u>
Total capital assets being depreciated	<u>5,903,942</u>	<u>549</u>	<u>5,904,491</u>
Less accumulated depreciation for:			
Buildings and building improvements	774,699	110,671	885,370
Equipment	246,699	5,030	251,729
Vehicles	<u>46,871</u>	<u>11,719</u>	<u>58,590</u>
Total accumulated depreciation	<u>1,068,269</u>	<u>127,420</u>	<u>1,195,689</u>
Total capital assets being depreciated, net	<u>4,835,673</u>	<u>(126,871)</u>	<u>4,708,802</u>
Business Type Activity Capital assets, net	<u>\$ 5,280,040</u>	<u>\$ (126,871)</u>	<u>\$ 5,153,169</u>
Total Municipality Capital assets, net	<u>\$ 36,204,534</u>	<u>\$ 345,455</u>	<u>\$ 36,549,989</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 \$277,278 is reported as of June 30, 2008.

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, 2008, the related unpaid property tax advances presented in the statement of net assets amounted to \$1,047,330 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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The annual tax rate for fiscal year 2007-08 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 \$710,496 in the general fund relates to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.
- 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	\$ 204,152
HOPWA	7,297
Federal Agriculture	12,408
Title III Elderly Centers	<u>4,016</u>
Total	<u>\$ 227,873</u>

NOTE 8. LONG TERM DEBT

Long-term liability activity for the year ended June 30, 2008, 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	\$4,187,000	\$	\$217,000	\$3,970,000	\$235,000
Notes payable	265,000		20,000	245,000	20,000
Advances CRIM - Law 42	1,065,275		17,945	1,047,330	19,073
Advances CRIM - Law 146	277,186		11,087	266,099	11,087
Advances CRIM – other	-0-	73,316		73,316	19,435
Loan PR Treasury Dept.	35,201		12,138	23,063	12,138
US Dep. of Agriculture	<u>1,274,957</u>	535,043	-0-	<u>1,810,000</u>	<u>-0-</u>
	7,104,619			7,434,808	<u>316,733</u>
Compensated absences	<u>1,514,940</u>	<u>3,187</u>		<u>1,518,127</u>	<u>379,530</u>
	<u>\$8,619,559</u>	<u>\$611,546</u>	<u>\$278,170</u>	<u>\$8,952,935</u>	<u>\$696,263</u>

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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, 2008 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%	\$ 1,165,000
\$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%	25,000
\$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%	1,185,000
\$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%	440,000
\$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%	440,000
 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%	230,000
\$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>485,000</u>
Total bonds payable	<u>\$ 3,970,000</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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, 2008 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>245,000</u>
Total bonds and notes payable	\$ <u>4,215,000</u>

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

Year Ending	Principal	Interest
June 30, 2009	\$ 255,000	\$ 243,133
2010	240,000	228,371
2011	265,000	215,051
2012	285,000	166,433
2013	170,000	155,684
2014-18	860,000	643,797
2019-23	920,000	445,109
2024-28	1,060,000	164,732
2029-33	<u>160,000</u>	<u>11,012</u>
Total	<u>\$ 4,215,000</u>	<u>\$ 2,273,322</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:

Year Ending	Principal	Interest
June 30, 2009	\$ 12,138	-
2010	<u>10,925</u>	<u>-</u>
Total	<u>\$ 23,063</u>	<u>\$ -</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

Advances from- CRIM'- This amount represents the balance owed to CRIM at June 30, 2008 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:

Year Ending	Principal	Interest
June 30,		
2009	\$ 19,073	\$ 64,513
2010	20,271	63,315
2011	21,545	62,042
2012	22,899	60,687
2013	24,337	59,249
2014-18	146,637	271,290
2019-23	198,869	219,058
2024-28	269,706	148,219
2029-33	<u>323,993</u>	<u>52,150</u>
Total	<u>\$ 1,047,330</u>	<u>\$1,000,523</u>

Compensated absences – The government-wide statement of net assets includes \$1,518,127 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 - \$1,810,000 interim construction loan payable to Rural Development approved until September 28, 2008. Loan advances received amounted to \$1,300,000. The advances from governmental bank requires payment of interest at 4.875%. A balance of \$510,000 of accrued interest payable for this obligation is reported as of June 30, 2008. In August 2008 two loans were processed by the PR Government Development Bank to refinance this obligation, and other miscellaneous fees.

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, 2008**

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, 2008 amounted to \$347,497.

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, 2008, 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, 2008**

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, 2008, amounted to \$75,828. 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, 2008 in the amount of \$3,465,798 for the construction of the Convention Center, Casa Loydi, Recreational Facilities, 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, 2007 Financial Statements Fund Balances of the Municipality of Corozal to an estimated GASB-34 basis of accounting as of this date. Accrued interest on Rural Development – USDA loan in the amount of \$510,000 was refinanced and reclassified as a long term debt and \$30,000 of Construction in Process in fiscal year 2006-2007 was not capitalized. The effect of such adjustments and reclassifications are presented below:

Governmental Activities:	Beginning Net Assets	\$28,789,338
	Accrued interest not considered – debt service	(100,102)
	Non capitalized Construction in Process	(30,000)
	Beginning Net Assets after adjustments	<u>\$28,659,236</u>
Government Funds:	Beginning Fund Balance – Debt Service Fund	\$ 697,621
	Accrued interest not considered – debt service	(100,102)
	Reclassification of interest payable to Long Term Debt	<u>510,000</u>
	Beginning Fund Balance – Debt Service Fund after reclassification and adjustment	<u>\$ 1,107,519</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>		Positive(Negative)
RESOURCES (inflows):				
Property Taxes	\$ 1,525,173	\$ 1,525,173	\$ 1,525,173	\$ -
Volume of Business Taxes	1,000,000	1,043,354	1,060,114	16,760
Government of P.R. Contributions	5,296,938	5,263,210	5,263,210	-
Contributions in lieu of taxes	1,370,393	1,370,393	1,370,393	-
Sale and use tax	840,000	910,342	934,819	24,477
Construction Tax	375,000	434,573	460,869	26,296
Rent	75,000	80,341	90,325	9,984
Interest	150,000	150,000	178,221	28,221
Other	185,500	320,332	355,788	35,456
	<u>10,818,004</u>	<u>11,097,718</u>	<u>11,238,912</u>	<u>141,194</u>
Amounts available for appropriations				
CHARGES TO APPROPRIATIONS (out flows):				
Municipal Concl	122,915	122,915	106,475	16,440
Mayor office	609,732	637,592	631,753	5,839
Finance	3,552,846	4,449,450	4,411,077	38,373
Public work	2,232,863	3,214,718	3,184,572	30,146
Health	458,332	458,332	458,331	1
Emergency management	392,142	248,825	247,851	974
Municipal Police	518,928	350,527	332,329	18,198
Personnel	148,336	108,758	107,756	1,002
Sports and recreation	406,644	345,873	343,497	2,376
Sanitation	1,216,209	1,137,983	1,102,802	35,181
Elderly Centers	121,732	94,806	93,999	807
Municipal Secretary	108,351	59,433	58,169	1,264
Public Relations	181,729	255,229	224,793	30,436
Internal Auditor	54,658	37,411	37,144	267
Purchases Department	105,941	87,989	87,540	449
Planning and Development	30,619	30,619	30,619	-
Vice-Mayor	69,352	48,693	47,893	800
Citizen Help	129,731	151,530	150,015	1,515
Historical Turistic Center of Cibuco	292,792	248,583	242,262	6,321
Recicling	64,152	58,452	58,352	100
	<u>10,818,004</u>	<u>12,147,718</u>	<u>11,957,229</u>	<u>190,489</u>
Total charges to appropriations				
Excess (deficiency) resources over charges	\$ -	\$ (1,050,000)	\$ (718,317)	\$ 331,683

The accompanying notes are integral part of this financial statement.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
RECONCILIATION OF ACTUAL AMOUNTS
BUDGETARY BASIS AND GASB BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

SOURCES/ INFLOW OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 11,238,912
Timing differences in revenue recognition in budgetary basis vs. Actual in Statement of Revenues: Property Taxes	58,865
Historic Turistic Center of Cibuco revenues are reported as a component unit for financial reporting purposes	(46,279)
Transfers from other funds are not revenue for financial reporting purposes	<u>(49,991)</u>
Total revenues as reported on the Statement of Revenues Expenditures and Changes in Fund Balances-Governmental Funds	<u>\$ 11,201,507</u>

USES/ OUTFLOWS OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$11,957,229
Capital expenditures transfer (ORD) are not expenditures for financial reporting purposes	(450,000)
Historical Turistic Center of Cibuco expenditures (\$242,262) net of Municipal Participation (\$195,531) to support the operation of the Center are classified as a component unit for financial reporting purposes	(45,731)
Other obligations considered expenditures for financial reporting puposes but are not expenditures for budgetary basis	110,726
Encumbrances recorded as current year expenditures for budgetary basis	<u>(1,011,833)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	<u>\$ 10,560,391</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND**

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET Positive(Negative)
	<u>ORIGINAL</u>	<u>FINAL</u>		
RESOURCES (inflows):				
Property Taxes	\$ 291,665	\$ 291,665	\$ 295,979	\$ 4,314
Interest	-	-	41,110	41,110
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriations	<u>291,665</u>	<u>291,665</u>	<u>337,089</u>	<u>45,424</u>
CHARGES TO APPROPRIATIONS (out flows):				
Long term loan amortization	120,453	120,453	182,000	(61,547)
Interest on long term debt	171,212	171,212	166,008	5,204
Transfer of interest earned to General Fund	-	-	49,991	(49,991)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>291,665</u>	<u>291,665</u>	<u>397,999</u>	<u>(106,334)</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (60,910)</u>	<u>\$ (60,910)</u>

The accompanying notes are integral part of this financial statement.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**NOTES TO BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2008.**

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, 2008**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>2008 EXPENDITURES</u>	<u>2007 EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Housing Choise Voucher	14.871	MP	\$ 691,270	\$ 536,687
Indirect Program:				
Passed through P.R. Office of Municipal Affairs				
Housing Opportunities for Persons with Aids (HOPWA)	14.241		37,210	26,628
State Block Grant Program (SBGP)	14.228	MP	900,247	823,527
Total US Department of Housing and Urban Development			<u>1,628,727</u>	<u>1,386,842</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through P.R. Elderly Commission				
Title III, Part C, Nutrition Services	93.045		<u>172,524</u>	<u>91,950</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Direct Program:				
Public Assistance Grants	83.544		<u>16,352</u>	<u>188,819</u>
US DEPARTMENT OF JUSTICE				
Direct Program:				
Public Safety Partnership and Community Policing Grants (Cops)	16.710		<u>302,860</u>	<u>201,328</u>
FEDERAL TRANSPORT ADMINISTRATION				
Passed trough Commonwealth of Puerto Rico				
Department of Transportation and Public Works (5311) (PR 18-X017)	20.509		<u>51,648</u>	<u>14,725</u>
US DEPARTMENT OF AGRICULTURE				
Passed through Caguas Area Office				
Rural Economic Development Loans and Grants				
Federal Agriculture	10.854		<u>39,229</u>	<u>35,216</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 2,211,340</u>	<u>\$ 1,918,880</u>

MP = Major Program

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008**

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, 2008, and have issued our report thereon dated December 5, 2008. 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 and opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs Section II.

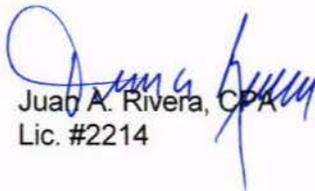
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality of Aibonito 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 5, 2008
Toa Baja, Puerto Rico



Stamp No2384887 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 Aibonito compliance with those requirements.

As described in Section II items in the accompanying schedule of findings and questioned costs, the Municipality of Aibonito 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, 2008.

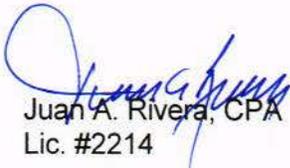
Internal Control Over Compliance

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 Aibonito 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 5, 2008
Toa Baja, Puerto Rico



Stamp No # 2384888 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2008

I. Summary of Auditor's Result

Financial Statements

Type of auditor's report issued: unqualified opinion

Internal Control over financial reporting:

Material weakness (es) identified?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Reportable condition (s) identified that are not considered to be material weakness?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Federal Awards	<input type="checkbox"/> Yes	<input type="checkbox"/> No
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Internal Control over major programs:

Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable condition (s) identified that are not Considered to be material weakness?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> 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?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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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: \$5000,00

Audited qualified as low-risk audit?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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

My examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2008 disclosed that grants funds were administered in a satisfactory manner, except for the following situation:

CDBG Housing Voucher
CFDA No. 14.871

Condition 08-01

Cash Management

The Section 8 maintained a large bank account balance as of June 30, 2008.

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 HUD as the Federal Regulation established.

Auditee Response

The finance director gave instruction to the employee in charge of this area in order to correct the issue mentioned above.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SHEDULE OF STATUS OF PRIOR YEAR
FOR THE YEAR ENDED JUNE 30, 2008

Program	Finding/Compliance	Status
Housing Voucher CFDA No. 14.871	Condition 07-1 Cash Management The Section 8 maintained a large bank account balance as of June 30, 2007. The Municipality did not make payments as soon as they receive the funds.	Corrected