

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

**MUNICIPIO DE COROZAL
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009**

SECRETARIA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedules**

Year Ended June 30, 2009

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2009**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
ENDED JUNE 30, 2009**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

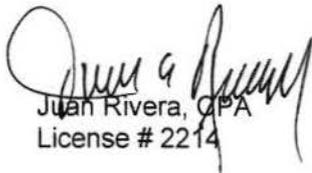
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico, as of June 30, 2009, 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 November 10, 2009 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 purposes financial statement taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non - Profit Organizations, and is not required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The 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

November 10, 2009
Toa Baja, Puerto Rico

Stamp No. # 2470244 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

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, 2009. 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 \$1,780,708.

The Municipality Business Type Activities net assets decreased by \$123,517 due to depreciation charges. The Business Type Activities revenue from Municipality contributions increased \$20,016 or 8%.

In the fund financial statements, the governmental revenue increased \$1,042,626 (or 6%) while governmental expenditures increased \$5,253,996 (or 36%).

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$1,378,835.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, decreased by \$105,156.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$2,116,392.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, increased by \$895,672.

On a budgetary basis, actual expenditures exceeded actual revenues by \$140,635.

Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure amounted to \$5,098,725.

During current year the Municipality issued \$3,830,000 in long term debt.

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

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.

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.

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

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.

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 \$32,942,681 at the end of current year, compared to \$31,161,973 at the end of the previous- year; this increase of \$1,780,708 represents the operational result of excess revenues over expenditures. The net assets of the proprietary business type activities totaled \$5,029,652 at the end of current year, compared to \$5,153,169 at the end of the previous- year; this decrease of \$123,517 was due to depreciation charges.

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 \$32,086,947. 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 (\$1,560,657), amount restricted for other purposes (\$850,522) and amounts restricted for capital projects (\$6,461,522), represents another portion of the net assets. These are resources subject to external restrictions for the purposes explained above.

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

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

Condensed Statement of Net Assets
As of June 30, 2009 and 2008

	Governmental Activities		Proprietary Fund	
	2009	2008	2009	2008
Current asset	\$ 7,984,379	\$ 9,186,661	\$ 1,967	\$ 1,524
Capital assets-net	34,847,295	31,396,820	5,029,652	5,153,169
Other assets	<u>5,432,998</u>	<u>3,010,727</u>	<u>-</u>	<u>-</u>
Total assets	<u>48,264,672</u>	<u>43,594,208</u>	<u>5,031,619</u>	<u>5,154,693</u>
Current liabilities	4,714,444	4,175,563	1,967	1,524
Noncurrent liabilities	<u>10,607,547</u>	<u>8,256,672</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>15,321,991</u>	<u>12,432,235</u>	<u>1,967</u>	<u>1,524</u>
Invested in capital assets, net of related debt	27,057,295	25,371,820	5,029,652	5,153,169
Unrestricted – (deficit)	(2,987,315)	(869,655)		
Restricted	<u>8,872,701</u>	<u>6,659,808</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 32,942,681</u>	<u>\$ 31,331,473</u>	<u>\$5,029,652</u>	<u>\$5,153,169</u>

Changes in Net Assets

The Municipality's governmental activities net assets increases by \$1,780,708; due to excess revenues over expenses. Approximately 23 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 4 percent of the total revenues. Current period revenues increased by \$1,042,536 (6%) while expenses increased \$1,764,565 (13%). 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 \$123,517 due to depreciation charges. Total revenue of the business type activity came from fees and Municipality contributions. The largest expenses were for depreciation, and operations. The Business Type Activities revenue from Municipality contributions increased \$21,840 or 11%.

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

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

Condensed Statement of Activities
For the years ended June 30, 2009 and 2008

GOVERNMENTAL ACTIVITIES:

	<u>2009</u>	<u>2008</u>
Program revenues:		
Charges for services	\$ 766,045	\$ 860,703
Operating grants and contributions	1,932,106	1,974,359
Capital grants and contributions	3,185,815	2,747,470
General revenues:		
Property taxes	1,739,168	1,866,000
Municipal license tax	1,000,655	1,060,114
Sales taxes	1,341,237	1,168,861
Interest and investment earnings	160,701	169,340
Grants and contributions not restricted	7,397,259	6,633,603
Total revenues	<u>17,522,986</u>	<u>16,480,450</u>
Expenses		
General Administration	7,020,390	5,348,272
Health	458,331	458,331
Housing	699,911	728,480
Emergency management and safety	725,001	928,563
Sports and recreation	486,498	335,839
Sanitation	1,205,773	1,064,883
Elderly centers	331,472	269,460
Interest on long-term debt	325,642	363,728
Depreciation	1,648,250	1,488,971
Public works	3,182,162	2,921,788
Total expenses	<u>16,083,430</u>	<u>13,908,315</u>
Excess revenues over expenses	<u>\$ 1,439,556</u>	<u>\$ 2,572,135</u>

BUSINESS TYPE ACTIVITIES:

Revenues:		
Grants and contributions	\$ 218,371	\$ 196,531
Fees	44,455	46,279
Total revenues	<u>262,826</u>	<u>242,810</u>
Expenses:		
Operating and maintenance	262,826	242,262
Depreciation	123,517	127,419
Total expenses	<u>386,343</u>	<u>369,681</u>
Excess revenue over expenses	<u>\$ (123,517)</u>	<u>\$ (126,871)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
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 \$10,062,146 an increase of \$1,344,058 in comparison with the prior year. There are reservations of fund balance amounting to \$9,764,935. 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 (\$382,234), 2) to pay debt service (\$1,560,657), 3) to pay for capital projects (\$6,461,522) 4) to refinance the USDA loan (\$510,000) and 5) for other purposes (\$850,522). Accordingly, the unreserved fund balance amounts to \$297,211 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, 2009, the general fund has a balance of \$679,445. The fund balance of the general fund decreased by \$1,378,835. Key factors in the decrease of the fund balance are as follows:

- Excess expenditures over revenues (562,677)
- Operating transfer to other governmental funds (816,158)

Revenues increased by \$528,258 (5%) due to an increase in the sales taxes collections of \$107,926, a decrease in other non-recurrent revenues of (\$267,304), a decrease in property taxes of (\$209,870), an increase of \$1,040,364 in Contributions from Government of PR, and a net decrease of (\$142,858) in all other revenue items. Expenditures increased \$1,985,426 (19%) due to an increase of \$636,379 for General Administration, \$485,091 increase for public works, \$143,517 increase for sanitation, \$122,555 increase for Municipal Police, \$470,063 in capital outlays, and a net increase of \$127,821 for all other expenditures categories.

The **Capital Project Fund** Balance, which is reserved for major capital expenditures, reflected an increase of \$2,116,392 due to excess revenues over expenditures of \$1,481,028 and transfers from the general fund of \$635,364. Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure in this fund amounted to \$3,702,795.

The **Joint Resolutions Fund** balance decreased by \$105,156 due to expenditures done during the year related to the purpose of the grants.

The **Debt Service Fund** balance reported an increase of \$895,672 as a result of excess expenditures over revenues of (\$1,167,903), net operating transfers from the general fund of \$243,575, and the issuance of \$1,820,000 of long term debt to refinance loan and accrued interest payable to USDA -US Rural Development.

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

Other Governmental Funds balances decreased by \$184,015 mainly for excess expenditures over revenues of \$121,234 and transfers to general fund of \$62,781.

Business-type Activities net assets decreased by \$123,517. Revenues of the Municipality's business-type activities reported \$262,826 while expenses amounted to \$386,343, including a charge for depreciation of \$123,517. Business Type Activities fee revenue decreased \$1,824 (7%) while revenue from Municipality contributions increased \$21,840 (11%). Total expenses increased by \$16,662 (4%).

GENERAL FUND BUDGETARY HIGHLIGHTS

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

In summary the general fund actual revenues were under budget by \$412,421 and actual expenditures were under budget by \$631,786, for a net favorable variance of \$219,365. The individual variances between budget and actual results were not significant, except for a revenue reduction of \$517,633 for contributions in lieu of taxes from the P.R. Electric Power Authority, and a related expenditure reduction of energy consumption cost.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets, including business type activities, as of June 30, 2009, amounts to \$57,038,393, with accumulated depreciation of \$17,161,447, leaving a net book value of \$39,876,946; of which \$34,847,294 are used for governmental activities and \$5,029,652 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 \$5,098,725 for the year. Depreciation charges for the year totaled \$1,771,768, of which \$1,648,251 are related to governmental activities and \$123,518 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, 2009 the Municipality has \$4,978,447 of unexpended proceeds from bond issuances and \$1,483,075 from other sources, for a total of \$6,461,522 that are committed to future construction activities, including completion of the Convention Center, the reconstruction of Casa Loidy and other project.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
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, 2009 the Municipality issued \$3,830,000 in long term debt. As of June 30, 2009 the Municipality Long Term Debt is composed as follows:

Bonds payable	\$ 7,055,000
Notes payable	735,000
Loan P.R. Treasury Department	10,925
Advances from CRIM	1,337,150
Loan US Department of Agriculture	<u>510,000</u>
	\$ 9,648,075

Other long term obligations consist of \$2,058,685 of accrued compensated absences such as vacations and sick leave and an accrued legal claims of \$500,000.

As of June 30, 2009 the Municipality redemption fund (debt service) has a balance of \$2,070,657, of which \$1,560,657 is restricted for the payment of long term debt principal and interest and \$510,000 is reserved for the refinancing of USDA Loan 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.

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

Those factors were considered when preparing the Municipality's budget for the 2009-2010 fiscal year.

In summary all revenues and expenditures for the general fund were budgeted in \$11,346,366 which represents a net decrease of \$1,076,205 or 9% in estimated revenues; and a net decrease of \$1,436,205 or 11% for expenditure appropriations. As presented in the General Fund Budgetary Comparison Schedule, the fiscal year 2008-2009 final budget consider the use of \$360,000 from prior years unreserved fund balance of the General Fund.

The most significant changes presented between the budget for fiscal year 2008-2009 and the one for fiscal year 2009-2010 are the following:

Estimated revenues:

Decrease in contributions from PR Power Authority (AEE)	\$(440,318)	(27%)
Decrease in PR Government contributions	(906,316)	(15%)
Increase in Property taxes	279,429	(17%)
Net Decrease in other estimated revenues	(9,000)	(0.3%)

Expenditure appropriations:

Increase in Municipal Police appropriations	\$ 114,664	(25%)
Increase in Sanitation appropriations	146,173	(13%)
Decrease in Public Works appropriations	(308,130)	(12%)
Increase in Sports and Recreation appropriations	23,750	(5%)
Increase in Emergency Management appropriations	168,995	(64%)
Increase in Elderly Centers appropriations	28,121	(19%)
Increase in Recycling appropriations	2,478	(4%)
Increase in contributions to Historic Center (CIBUCO)	99,536	(38%)
Net decrease in Administrative appropriations	(1,711,792)	(22%)

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENTS OF NET ASSETS
JUNE 30, 2009 and 2008**

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	2009 TOTAL	2008 TOTAL
Current Assets:				
Cash	\$ 1,224,635	\$ -	\$ 1,224,635	\$ 3,020,225
Investment	4,792,476		4,792,476	3,804,566
Accounts receivable:				
Other	160,455	1,967	162,422	98,718
Property taxes	52,089		52,089	282,409
Due from other governments	1,754,724	-	1,754,724	1,982,267
Total current assets	7,984,379	1,967	7,986,346	9,188,185
Noncurrent Assets:				
Cash held with fiscal agent	5,432,998		5,432,998	3,010,727
Capital Assets (net of depreciation)	34,847,295	5,029,652	39,876,947	36,549,989
Total noncurrent assets	40,280,293	5,029,652	45,309,945	39,560,716
TOTAL ASSETS	48,264,672	5,031,619	53,296,291	48,748,901
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	476,274	1,967	478,241	513,477
Due to other governmental units	1,236,307		1,236,307	1,636,518
Deferred Revenues	1,211,327		1,211,327	938,369
Accrued interest on Loans	191,323		191,323	392,460
Current portion of long term debt	1,599,213	-	1,599,213	696,263
Total current liabilities	4,714,444	1,967	4,716,411	4,177,087
Noncurrent Liabilities:				
Advances from CRIM Law 42	1,028,257		1,028,257	1,047,330
Advances from CRIM Law 146	255,012		255,012	266,099
Advances from CRIM - other	53,881		53,881	73,316
Loan PR Treasury Department Law 80	10,925		10,925	23,063
Bonds Payable	7,055,000		7,055,000	3,970,000
Notes payable	735,000		735,000	245,000
Legal claims and judgements	500,000		500,000	-
Accrued compensated absences	2,058,685		2,058,685	1,518,127
US Department of Agriculture	510,000	-	510,000	1,810,000
	12,206,760	-	12,206,760	8,952,935
Less: Reported as current portion	(1,599,213)	-	(1,599,213)	(696,263)
Total noncurrent liabilities	10,607,547	-	10,607,547	8,256,672
TOTAL LIABILITIES	15,321,991	1,967	15,323,958	12,433,759
NET ASSETS				
Invested in Capital Assets, net of related debt	27,057,295	5,029,652	32,086,947	30,524,989
Restricted for Capital Projects	6,461,522		6,461,522	4,695,622
Restricted for Debt Service	1,560,657		1,560,657	1,174,985
Restricted for Other Purposes	850,522		850,522	789,201
Unrestricted - (deficit)	(2,987,315)	-	(2,987,315)	(869,655)
TOTAL NET ASSETS	\$ 32,942,681	\$ 5,029,652	\$ 37,972,333	\$ 36,315,142

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009 and 2008**

	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>			
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>2009 TOTAL</u>	<u>2008 TOTAL</u>
GOVERNMENTAL ACTIVITIES:								
General Administration	6,679,238	\$ 67,013	\$ 19,406	\$ -	\$ (6,592,819)		\$ (6,592,819)	\$ (4,908,670)
Public work	3,182,162	699,032	964,175	3,185,815	1,666,860		1,666,860	967,957
Health	458,331				(458,331)		(458,331)	(458,331)
Emergency management	261,411				(261,411)		(261,411)	(247,956)
Municipal Police	463,590		8,858		(454,732)		(454,732)	(332,482)
Sports and recreation	486,498		48,525		(437,973)		(437,973)	(335,839)
Sanitation	1,205,773		985		(1,204,788)		(1,204,788)	(1,063,572)
Elderly Centers	331,472		190,246		(141,226)		(141,226)	(94,191)
Housing	699,911		699,911		-		-	-
Interest on Long Term Debt	325,642				(325,642)		(325,642)	(433,126)
Depreciation	1,648,250	-	-	-	(1,648,250)		(1,648,250)	(1,488,971)
Total governmental activities	<u>15,742,278</u>	<u>766,045</u>	<u>1,932,106</u>	<u>3,185,815</u>	<u>(9,858,312)</u>		<u>(9,858,312)</u>	<u>(8,395,181)</u>
BUSINESS TYPE ACTIVITIES:								
Operations	262,826	44,455	218,371			-	-	548
Depreciation	123,517	-	-	-		(123,517)	(123,517)	(127,419)
Total business type activities	<u>386,343</u>	<u>44,455</u>	<u>218,371</u>	<u>-</u>		<u>(123,517)</u>	<u>(123,517)</u>	<u>(126,871)</u>
TOTAL ACTIVITIES	<u>\$ 16,128,621</u>	<u>\$ 810,500</u>	<u>\$ 2,150,477</u>	<u>\$ 3,185,815</u>			<u>(9,981,829)</u>	<u>(8,522,052)</u>
GENERAL REVENUES:								
Property taxes, levied for general purposes					1,374,168		1,374,168	1,584,038
Property taxes, levied for debt services					365,000		365,000	281,962
Volume of business taxes					1,000,655		1,000,655	1,060,114
Sale taxes					1,341,237		1,341,237	1,168,861
Government of P.R. Contributions					6,303,574		6,303,574	5,263,210
Contributions in lieu of taxes					1,093,685		1,093,685	1,370,393
Interest					160,701	-	160,701	169,340
TOTAL GENERAL REVENUES					<u>11,639,020</u>	<u>-</u>	<u>11,639,020</u>	<u>10,897,918</u>
CHANGES IN NET ASSETS					1,780,708	(123,517)	1,657,191	2,375,866
Prior period adjustments					-	-	-	(130,102)
Net assets - beginning of period					31,161,973	5,153,169	36,315,142	34,069,378
Net assets - ending of period					<u>\$ 32,942,681</u>	<u>\$ 5,029,652</u>	<u>\$ 37,972,333</u>	<u>\$ 36,315,142</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**BALANCE SHEETS
GOVERNMENTAL FUNDS**

JUNE 30, 2009 and 2008

ASSETS	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2009 TOTAL GOVERNMENTAL FUNDS	2008 TOTAL GOVERNMENTAL FUNDS
Cash	\$ 478,314	\$ 378,532	\$ 7,544	\$ -	\$ 360,245	\$ 1,224,635	\$3,020,225
Cash held with fiscal agent	-	91,197	2,960,903	2,380,898	-	5,432,998	3,010,727
Investment	2,577,476	115,000	2,010,000		90,000	4,792,476	3,804,566
Accounts receivable:							
Other	2,055					2,055	7,194
Property Taxes	-			52,089		52,089	282,409
Accrued interest receivable	18,400					18,400	20,000
Accrued Xmas Bonus reimbursement	140,000					140,000	70,000
Due from other governments	1,093,685		46,372	-	614,667	1,754,724	1,982,267
Due from other funds	<u>715,126</u>	<u>583,123</u>	<u>842,140</u>	<u>-</u>	<u>190,124</u>	<u>2,330,513</u>	<u>3,609,534</u>
TOTAL ASSETS	<u>\$ 5,025,056</u>	<u>\$ 1,167,852</u>	<u>\$ 5,866,959</u>	<u>\$ 2,432,987</u>	<u>\$ 1,255,036</u>	<u>\$ 15,747,890</u>	<u>\$ 15,806,922</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
BALANCE SHEETS
GOVERNMENTAL FUNDS**

JUNE 30, 2009 and 2008
(Continued)

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2009 TOTAL GOVERNMENTAL FUNDS</u>	<u>2008 TOTAL GOVERNMENTAL FUNDS</u>
LIABILITIES							
Accounts payable	\$ 221,274	\$ -	\$ -	\$ -	\$ -	\$ 221,274	\$ 371,953
Due to other governmental units	1,236,307					1,236,307	1,636,618
Deferred Revenues	948,650				262,677	1,211,327	938,369
Accrued employee benefits	255,000					255,000	140,000
Accrued interest on Loans	68,993			122,330		191,323	392,460
Matured bonds payable				240,000		240,000	-
Due to other funds	1,615,387	-	-	-	715,126	2,330,513	3,609,534
TOTAL LIABILITIES	<u>4,345,611</u>	<u>-</u>	<u>-</u>	<u>362,330</u>	<u>977,803</u>	<u>5,685,744</u>	<u>7,088,934</u>
FUND BALANCES							
Reserved for:							
Capital Projects		594,563	5,866,959			6,461,522	4,695,622
Debt Service				1,560,657		1,560,657	1,174,985
Refinance of USDA Loan interest				510,000		510,000	-
Other Purposes		573,289			277,233	850,522	789,201
Encumbrances	382,234					382,234	1,011,833
Unreserved	297,211	-	-	-	-	297,211	1,046,447
TOTAL FUND BALANCES	<u>679,445</u>	<u>1,167,852</u>	<u>5,866,959</u>	<u>2,070,657</u>	<u>277,233</u>	<u>10,062,146</u>	<u>8,718,088</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,025,056</u>	<u>\$ 1,167,852</u>	<u>\$ 5,866,959</u>	<u>\$ 2,432,987</u>	<u>\$ 1,255,036</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						34,847,295	31,396,820
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds							
net of matured bonds payable (\$12,206,760 - \$240,000)						<u>(11,966,760)</u>	<u>(8,952,935)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES						<u>\$ 32,942,681</u>	<u>\$ 31,161,973</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009 and 2008**

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2009 TOTAL GOVERNMENTAL FUNDS</u>	<u>2008 TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:							
Property taxes	\$ 1,374,168	\$ -	\$ -	\$ 365,000	\$ -	\$ 1,739,168	\$ 1,866,000
Volume of Business Taxes	1,000,655					1,000,655	1,060,114
Government of P.R. Contributions	6,303,574	365,000	1,228,600		282,814	8,179,988	7,523,027
Contributions in lieu of taxes	1,093,685					1,093,685	1,370,393
Grants and contributions			1,957,215		1,284,292	3,241,507	2,462,012
Sales taxes	1,042,745			298,492		1,341,237	1,168,861
Charges for services	583,413					583,413	460,869
Rent	115,619					115,619	67,525
Interest	150,901			9,800		160,701	169,340
Miscellaneous	65,005	1,980	-	118	-	67,103	332,309
TOTAL REVENUES	<u>11,729,765</u>	<u>366,980</u>	<u>3,185,815</u>	<u>673,410</u>	<u>1,567,106</u>	<u>17,523,076</u>	<u>16,480,450</u>
EXPENDITURES:							
General Administration	5,973,448				6,384	5,979,832	5,345,573
Public work	2,570,228	4,664	11,992		595,278	3,182,162	2,921,788
Health	458,331					458,331	458,331
Emergency Management	261,411					261,411	247,956
Municipal Police	454,884				8,706	463,590	680,607
Sports and recreation	418,197				68,301	486,498	335,839
Sanitation	1,204,319				1,454	1,205,773	1,064,883
Elderly Centers	144,166				187,306	331,472	269,460
Housing					699,911	699,911	728,480
Capital Outlay	807,458	467,472	3,702,795		121,000	5,098,725	1,990,809
Principal Retirement on Long Term Debt				1,515,671		1,515,671	278,170
Interest on Long Term Debt	-	-	-	325,642	-	325,642	433,126
TOTAL EXPENDITURES	<u>12,292,442</u>	<u>472,136</u>	<u>3,714,787</u>	<u>1,841,313</u>	<u>1,688,340</u>	<u>20,009,018</u>	<u>14,755,022</u>
EXCESS REVENUES OVER EXPENDITURES	<u>(562,677)</u>	<u>(105,156)</u>	<u>(528,972)</u>	<u>(1,167,903)</u>	<u>(121,234)</u>	<u>(2,485,942)</u>	<u>1,725,428</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL

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

FOR THE YEAR ENDED JUNE 30, 2009 and 2008
(Continued)

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2009 TOTAL GOVERNMENTAL FUNDS</u>	<u>2008 TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES):							
Capital related debt issued	\$ -	\$ -	\$ 2,010,000	\$ 1,820,000	\$ -	\$ 3,830,000	\$ 98,359
Transfers	<u>(816,158)</u>	<u>-</u>	<u>635,364</u>	<u>243,575</u>	<u>(62,781)</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>(816,158)</u>	<u>-</u>	<u>2,645,364</u>	<u>2,063,575</u>	<u>(62,781)</u>	<u>3,830,000</u>	<u>98,359</u>
NET CHANGES IN FUND BALANCES	(1,378,835)	(105,156)	2,116,392	895,672	(184,015)	1,344,058	1,823,787
Prior periods adjustments: Reclassification							510,000
Other							(100,102)
FUND BALANCES, BEGINNING 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>
FUND BALANCES, END OF YEAR	<u>\$ 679,445</u>	<u>\$ 1,167,852</u>	<u>\$ 5,866,959</u>	<u>\$ 2,070,657</u>	<u>\$ 277,233</u>	<u>\$ 10,062,146</u>	<u>\$ 8,718,088</u>

Other
05/15/09

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

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

FOR THE YEAR ENDED JUNE 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Net changes in fund balances - total governmental funds	\$ 1,344,058	\$ 1,893,185
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 (\$5,098,725) exceed depreciation expense (\$1,648,250) in the current period.	3,450,475	501,838
Increase in Compensated Absences is considered an expense in the governmental activities while not considered for the governmental funds expenditures.	(540,558)	(2,699)
Accrued legal claims and judgments during current year	(500,000)	
Accrued matured bonds payable as of June 30, 2009	240,000	
Other expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	101,062	
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 proceeds (\$3,830,000) exceeded repayments (\$1,515,671).	<u>(2,314,329)</u>	<u>179,811</u>
Changes in net assets of governmental activities	<u>\$ 1,780,708</u>	<u>\$ 2,572,135</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**STATEMENTS OF NET ASSETS
PROPRIETARY FUND**

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

JUNE 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets:		
Petty cash	\$ -	\$ -
Cash in Bank	-	-
	-	-
Accounts receivable:		
Other	1,967	1,524
Allowance for bad debts	-	-
	1,967	1,524
Total current assets	1,967	1,524
Fixed Assets:		
Land	444,367	444,367
Buildings and improvements	5,533,562	5,533,562
Equipment, furniture and fixtures	253,749	253,749
Vehicles	117,180	117,180
	6,348,858	6,348,858
Accumulated depreciation	(1,319,206)	(1,195,689)
Total fixed assets	5,029,652	5,153,169
Other assets:	-	-
Total assets	<u>\$ 5,031,619</u>	<u>\$ 5,154,693</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - trade	\$ 1,967	\$ 1,524
Other	-	-
Total current liabilities	1,967	1,524
Net assets:		
Net investment in fixed assets	5,029,652	5,153,169
Unrestricted	-	-
Net assets	<u>5,029,652</u>	<u>5,153,169</u>
Total liabilities and net assets	<u>\$ 5,031,619</u>	<u>\$ 5,154,693</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

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

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

FOR THE YEAR ENDED JUNE 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES:		
Admission fee	\$ 21,655	\$ 23,479
Rental fee	22,800	22,800
Other income - municipal contribution	<u>218,371</u>	<u>196,531</u>
Total revenues	262,826	242,810
EXPENSES:		
Operating and maintenance	262,826	242,262
Depreciation	123,517	127,419
Other	<u>-</u>	<u>-</u>
COST OF OPERATIONS	<u>386,343</u>	<u>369,681</u>
EXCESS COSTS OVER REVENUES	(123,517)	(126,871)
OTHER	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(123,517)	(126,871)
Prior Period Adjustments	-	-
BEGINNING NET ASSETS	<u>5,153,169</u>	<u>5,280,040</u>
ENDING NET ASSETS	<u>\$ 5,029,652</u>	<u>\$ 5,153,169</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**STATEMENTS OF CASH FLOWS
PROPRIETARY FUND**

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

FOR THE YEAR ENDED JUNE 30,

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (123,517)	\$ (126,871)
Adjustment to convert changes in net assets to cash provided by operating activities:		
Depreciation expenses	123,517	127,419
(Increase) Decrease in accounts receivable -	(443)	5,057
Increase (Decrease) in accounts payable - trade	443	(5,057)
Other items	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	-	548
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in other equipment	-	(548)
NET CASH USED IN INVESTING ACTIVITIES	-	(548)
 CASH FLOWS FROM FINANCING ACTIVITIES		
	-	-
 NET INCREASE (DECREASE) IN CASH	-	-
 CASH AT BEGINNING OF YEAR	-	-
 CASH AT END OF YEAR	\$ -	\$ -

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL

NOTES TO BASIC FINANCIAL STATEMENTS

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009**

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

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

a) Financial Reporting Model

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 fiscal year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), the required basic 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).

RSI, consisting of a Management's Discussion and Analysis (MD&A), is information presented along with, but separate from, Municipality's basic financial statements.

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 fiscal year ended June 30, 2009, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

Other supplementary information presented in this report for purposes of additional analysis consist of:

(1) combining and individual non-major governmental fund financial statements, (2) budgetary comparison schedule — debt service fund, and (3) schedules of capital assets used in the operations of governmental funds, as listed in the accompanying table of contents.

b) Financial Reporting Entity

The Municipality follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14) and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39) to determine its financial reporting entity.

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unit of the Municipality if all of the following criteria are met:

The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

The economic resources for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

The Municipality's management has concluded that, based on the aforementioned criteria, there is no entity that should be reported as component units of the Municipality for the fiscal year ended June 30, 2009.

c) Government-wide Financial Statements

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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

Statement of Net Assets

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

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

Invested in capital assets, net of related debt - This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets (capital-related debt). For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

In addition, for the purposes of determining the outstanding debt attributed to capital assets, the following items are excluded from the calculation: (1) interest payable, (2) accrued interest on deep discount debt and non-capital accrued liabilities (e.g. compensated absences, claims and judgments, etc.), and (3) debt used to finance capital acquisitions by parties outside the Municipality. Furthermore, the computation of net assets invested in capital assets, net of related debt, excludes inter-fund loans and other financial assets.

Restricted net assets - This net asset category consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

COMMONWEALTH OF PUERTO RICO
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Fiscal Year Ended June 30, 2009
(continued)

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

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

The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets as of June 30, 2009:

- (1) **Debt service** - Represent net resources available to cover future debt service payments of bonds payable.
- (2) **Other purposes** - Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- (3) **Capital project** - Represents net resources available for the acquisition or construction of major capital facilities.

Unrestricted net assets - Generally, this category consists of the excess of assets over related liabilities that are neither externally nor legally restricted, neither invested in capital assets. Generally, the assets recorded within this category are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

Statement of Activities

The accompanying statement of activities presents the Municipality's results of operations by showing how the Municipality's net assets changed during the fiscal year ended June 30, 2009, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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Fiscal Year Ended June 30, 2009
(continued)

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general administration, (2) Public work, (3) Health, (4) emergency management, (5) Municipal police (6) Sports and recreation (7) Sanitation (8) Elderly centers (9) Housing.

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

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities reports the following categories of program revenues for the fiscal year ended June 30, 2009:

Charges for services - These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

Program-specific operating and capital grants and contributions - These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes - to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, sales and use taxes and construction excise taxes are reported as general revenues. All other non-tax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality.

Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

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

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

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet - governmental funds, (2) the statement of revenues, expenditures and changes in fund balances (deficits) - governmental funds and (3) the statement of revenues and expenditures - budget and actual - budgetary basis - general fund.

These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality.

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Fiscal Year Ended June 30, 2009
(continued)

For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

General fund - The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

Debt service fund - The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2009, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

Special revenue funds - Special revenue funds are governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Capital projects funds - Capital projects funds are governmental funds, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

Proprietary Funds - 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 as a proprietary fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

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

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, (3) the capital improvements fund, and (4) joint resolutions fund.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements.

The accompanying GFFS are accompanied by the following schedules required by GAAP: (1) the reconciliation of the balance sheet - governmental funds to the statement of net assets, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements - The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless,

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

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

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

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

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned (deferred) revenues.

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Fiscal Year Ended June 30, 2009
(continued)

According to GASB No. 34, all general capital assets and the un-matured long-term liabilities are recorded only in the accompanying statement of net assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances –governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposit, intergovernmental grants and contributions and certain charges for services) to be available if collected within 90 days after June 30, 2009, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2009.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and certain charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred revenues.

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

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2009.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI. No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. GASB No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet — governmental funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet — governmental funds. At the same time, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet — governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2009, which are recorded as governmental fund liabilities at June 30, 2009 which is the date when resources were available in the debt service fund.

Certain accounts payable intergovernmental payables and other accrued liabilities not due and payable (un-matured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.

Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

f) Stewardship, Compliance and Accountability

Budgetary Control

The Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

The Mayor must submit for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

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

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

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level within the general and debt service funds, respectively.

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

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that unspent balance from the prior year be carried forward and made available for current spending.

The accompanying statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2009.

g) 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 \$478,314 in the general fund were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$378,532 of Joint Resolutions Funds, \$7,544 of Capital Project Funds, and \$360,245 of other governmental funds, that were fully collateralized.

The deposits at GDB of \$5,432,998, restricted for capital projects, joint resolutions 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.	\$2,690,000
Government Development Bank of P.R.	<u>2,102,476</u>
Total	<u>\$4,792,476</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

h) Accounts Receivable

Receivables consist of all revenues earned but not collected at June 30, 2009. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds"

i) 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

j) Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

Inter-fund loans - Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

Inter-fund transfers - Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment.

Operating transfers are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

Inter-fund reimbursements - Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

k) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

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

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements.

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

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

Description	Years
Buildings	50
Infrastructure	10
Building and site improvements	25
Vehicles	10
Machinery and equipment	7

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

l) Deferred Revenues

In the GFFS, deferred revenue arises when one of the following situations occur:

The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

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

m) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absence*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2009 and (2) is not contingent on a specific event that is outside the control of the Municipality' and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed. .

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

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

n) Long-term Debt

The long term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable, notes payable, accrued compensated absences, and accrued legal claims and judgments if any.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1, 2009 are recorded as governmental Fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2009). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

o) 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, 2009, amounted to \$79,524. 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.

p) Accounting for Pension Costs and Post-Employment Benefits

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

The government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico.

q) Risk Management

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

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

(continued)

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2009.

r) Reservations of Fund Balances

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

Encumbrances - Represent reservations of fund balances for commitments related to unperformed (executory) contracts for goods or services (future expenditures under purchase orders, contracts and other commitments). These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future fiscal years as the goods or services are received.

Debt service - Represent fund balances available to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund.

Capital assets and projects - Represent the reservation of financial resources to be used for the acquisition, construction or improvement of capital assets under contracts and other commitments.

Other - Represent financial resources set aside for use in federal and state grant programs.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

2. Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2009:

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2009 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2009. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico* (the adopted policy of the Municipality). At June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

Therefore, the Municipality's management has concluded that at June 30, 2009, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk - This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

3. 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 deferred revenue is recorded at June 30. A deferred revenue of \$226,130 is reported as of June 30, 2009.

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.

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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, 2009, the related unpaid property tax advances presented in the statement of net assets amounted to \$1,028,257 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.

The annual tax rate for fiscal year 2008-09 is 9.83% for real property and 7.83% 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) 8.80% and 6.80%, 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.

4. Municipal License Taxes

The Municipality is authorized to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of COROZAL. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due. Municipal license tax revenues for the fiscal year ended June 30, 2009 amounted to \$1,000 655 in the accompanying financial statements.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

(continued)

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues. Unearned municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$722,520 at June 30, 2009. This amount represents the municipal license taxes corresponding to fiscal year ending June 30, 2010 that were collected in advance during the last quarter of the current fiscal year, as required by law.

5. Sales and Use Taxes

The Municipality imposes a sales and use tax pursuant to the provisions of the Puerto Rico Internal Revenue Code, as amended. The tax consists of one percent (1.0%) on the sales price of taxable items or on the purchase prices of all usage, storage, or consumption of taxable items, excluding wholesales. The sales and use tax is a self-assessed tax collected by the Municipality through monthly tax returns due on the twentieth day of the immediate following month. The tax returns are filed by the respective businesses that are required by law to withhold the tax from consumers on each taxable product or service. Sales and use tax revenues amounted to \$1,042,745 for the fiscal year ended June 30, 2009.

The commonwealth of Puerto Rico imposes a separate state sales and use tax of 0.5%, which is imposed and collected by the Puerto Rico Treasury Department through monthly tax return due on the twentieth day of the immediate following month. This 0.5% tax is administered by the Government Development Bank of Puerto Rico for the following purposes: (1) 0.2% is deposited in the new "Municipal Debt Service Fund", strictly for granting loans to the municipalities of Puerto Rico; (2) 0.2% for the creation of the "Municipal Development Fund" percentage, which will be distributed among all municipalities pursuant to a statutory formula; and (3) 0.1%, for the creation of the "Permanent Improvements Fund", to be distributed by the Legislature of the Commonwealth of Puerto Rico to carry out public works and permanent improvement projects in the municipalities of Puerto Rico.

6. Intergovernmental Receivables and Payables

a. Due from other governments - in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") \$1,093,685. 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.

b. Due from other government - in the other governmental funds are the following:

U.S. Department of Justice (Cops)	\$ 88,255
U.S. Department of HUD - Portability	2,268
Commonwealth of PR - Department of Labor (Corozal en forma)	16,410
Commonwealth of PR - "Codigo de Orden Publico"	19,668
Commonwealth of PR - Department of Labor (Law 52 & 82)	386,482
Commonwealth of PR - Community Development Program	<u>101,584</u>
	<u>\$ 614,667</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

Due from other government in the capital project fund is the following:

Commonwealth of PR – Office of Management and Budget \$ 46,372

c. Due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$1,093,685
PR Police Department	17,590
PR General Services Administration	4,489
PR Sewer and Sanitary Authority	47,635
PR Treasury Department	6,245
PR Retirement System	<u>66,663</u>
	<u>\$1,236,307</u>

7. Inter-fund Transactions

Inter fund – receivables and payables at June 30, 2009 are summarized as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General	\$ 715,126	\$1,615,387
Other Governmental	190,124	715,126
Joint Resolutions	583,123	-
Capital Project	<u>842,140</u>	<u>-</u>
Total	<u>\$2,330,513</u>	<u>\$2,330,513</u>

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2009.

8. Deferred Revenues

Deferred revenues recorded in the accompanying GWFS and the GFFS are as follows:

a. General Fund:

A deferred revenues of \$948,650 in the general fund is related to municipal license tax in the amount of \$722,520 collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10 and property taxes in the amount of \$226,130 collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

b. Other Governmental funds:

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	\$ 174,234
FEMA	61,674
HOPWA	5,719
Federal Agriculture	1,764
Title III Elderly Centers	<u>19,286</u>
Total	<u>\$ 262,677</u>

9. Long-Term Obligations

a) The general long-term debt activity for the fiscal year ended June 30, 2009 is as follows:

	<u>Beginning Balance</u>	<u>Borrowings or Addition</u>	<u>Payments or Deduction</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Bonds payable	\$3,970,000	\$3,320,000	\$235,000	\$7,055,000	\$280,000
Notes payable	245,000	510,000	20,000	735,000	30,000
Advances CRIM - Law 42	1,047,330		19,073	1,028,257	20,271
Advances CRIM - Law 146	266,099		11,087	255,012	11,087
Advances CRIM – other	73,316		19,435	53,881	20,610
Loan PR Treasury Dept.	23,063		12,138	10,925	10,925
US Dep. of Agriculture	<u>1,810,000</u>		1,300,000	<u>510,000</u>	<u>510,000</u>
	7,434,808			9,648,075	882,893
Legal claims	-	500,000		500,000	500,000
Compensated absences	<u>1,518,127</u>	700,078	159,520	<u>2,058,685</u>	<u>216,320</u>
	<u>\$8,952,935</u>			<u>\$12,206,760</u>	<u>\$1,599,213</u>

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances and any other long-term liabilities other than bonds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

b) Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth of Puerto Rico provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and bond anticipation notes. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2009:

	<u>Outstanding amount</u>
<u>General Obligation Bonds:</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%	\$ 1,135,000
\$1,310,000 - 2008 general municipal obligation bonds due in annual installments of \$30,000 to \$90,000, through July 1, 2033; (USDA) with interest at 4.875%	1,310,000
\$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%	1,155,000
\$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%	430,000
\$2,010,000 - 2009 special obligation bond due in annual installments of \$30,000 to \$175,000 through July 1, 2033 with variable interest at 1.5% over prime	2,010,000
\$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%	340,000

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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%	200,000
\$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>475,000</u>
Total bonds payable	<u>\$ 7,055,000</u>

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, 2009 are as follows:

	<u>Outstanding Amount</u>
\$510,000 – serie 08-09 loan payable (USDA) in Annual installments of \$10,000 to \$40,000 through July 1, 2033 with interest at 4.875%, payable from operational fund	510,000
\$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>\$ 225,000</u>
Total bonds and notes payable	<u>\$ 7,790,000</u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts.

COMMONWEALTH OF PUERTO RICO
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Fiscal Year Ended June 30, 2009
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Annual debt service requirements of maturity for bonds and notes payable are as follows:

Year Ending June 30,	Principal	Interest
2010	\$ 310,000	\$ 368,121
2011	335,000	412,880
2012	360,000	395,220
2013	250,000	379,773
2014	270,000	366,334
2015-19	1,355,000	1,618,434
2020-24	1,675,000	1,218,983
2025-29	1,835,000	684,395
2030-33	<u>1,400,000</u>	<u>224,310</u>
Total	<u>\$ 7,790,000</u>	<u>\$5,668,450</u>

At June 30, 2009, accrued interest payable on bonds and notes amounted to \$122,330, which are recorded in the debt service fund and the statement of net assets.

c. 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 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 June 30,	Principal	Interest
2010	\$ <u>10,925</u>	<u>-</u>
Total	<u>\$ 10,925</u>	<u>\$ -</u>

d. Advances from- CRIM'-.This amount represents the balance owed to CRIM at June 30, 2009 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 and \$277,186 of Law 146 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, LIMS balance is payable until 2012, with variable interest rate.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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

Year Ending June 30,	LIMS Principal	Law 146 Principal	Law 42 Principal	Interest
2010	\$20,610	\$ 11,087	\$ 20,271	\$ 82,081
2011	21,854	11,087	21,545	78,874
2012	11,417	11,087	22,899	75,509
2013		11,087	24,337	73,041
2014		11,087	25,866	70,823
2015-19		55,435	155,852	317,245
2020-24		55,435	211,366	244,491
2025-29		55,435	286,654	151,962
2030-33	-	<u>33,272</u>	<u>259,467</u>	<u>37,232</u>
Total	\$53,881	\$255,012	\$1,028,257	\$1,131,249

e. **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, 2009. In August 2008 two loans were processed by the PR Government Development Bank to refinance this obligation, accrued interest and other miscellaneous fees. The refinancing payments for principal \$1,300,000 was made by the PR Government Development Bank in December 2008, and the refinancing payment for interest \$510,000 will be made after June 30, 2009.

f. **Compensated absences** – The government-wide statement of net assets includes \$2,058,685 of accrued sick leave benefits and accrued vacation benefits and related employer payroll cost, representing the Municipality's commitment to fund such costs from future operations.

NOTE 10. 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:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

Capital assets activity for the fiscal year ended June 30 , 2009:

	Balance June 2008	Additions (Retirements)	Balance June 2009
Governmental Activities:			
Capital asset, not being depreciated:			
Land	\$ 10,694,569	50,000	\$ 10,744,569
Construction in progress	2,021,230	(705,450)	1,315,780
Total capital assets not being depreciated	<u>12,715,799</u>	<u>(655,450)</u>	<u>12,060,349</u>
Capital assets, being depreciated:			
Buildings and building improvements	16,841,866	2,065,631	18,907,497
Site improvements	1,310,940	1,113,436	2,424,376
Infrastructure	7,879,178	2,207,650	10,086,828
Equipment	827,944	226,946	1,054,890
Vehicles	6,015,083	140,512	6,155,595
Total capital assets being depreciated	<u>32,875,011</u>	<u>5,754,175</u>	<u>38,629,186</u>
Less accumulated depreciation for:			
Buildings and building improvements	4,683,076	335,085	5,018,161
Site improvements	846,714	27,156	873,870
Infrastructure	3,644,413	958,141	4,602,554
Equipment	647,024	35,219	682,243
Vehicles	4,372,763	292,649	4,665,412
Total accumulated depreciation	<u>14,193,990</u>	<u>1,648,250</u>	<u>15,842,240</u>
Total capital assets being depreciated, net	<u>18,681,021</u>	<u>4,105,925</u>	<u>22,786,946</u>
Governmental activities capital assets, net	<u>\$ 31,396,820</u>	<u>\$ 3,450,475</u>	<u>\$ 34,847,295</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	253,749	-	253,749
Vehicles	117,180	-	117,180
Total capital assets being depreciated	<u>5,904,491</u>	<u>-</u>	<u>5,904,491</u>
Less accumulated depreciation for:			
Buildings and building improvements	885,370	110,671	996,041
Equipment	251,729	1,128	252,857
Vehicles	58,590	11,718	70,308
Total accumulated depreciation	<u>1,195,689</u>	<u>123,517</u>	<u>1,319,206</u>
Total capital assets being depreciated, net	<u>4,708,802</u>	<u>(123,517)</u>	<u>4,585,285</u>
Business Type Activity Capital assets, net	<u>\$ 5,153,169</u>	<u>\$ (123,517)</u>	<u>\$ 5,029,652</u>
Total Municipality Capital assets, net	<u>\$ 36,549,989</u>	<u>\$ 3,326,958</u>	<u>\$ 39,876,947</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

11. Employees' Retirement Systems

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.

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, 2009 amounted to \$290,036.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

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, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42005, San Juan, PR 00940.

12. Commitments and Contingencies

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Public Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. A reserve of \$500,000 has been made for unfavorable outcome, in relation to all pending or threatened litigations.

The Municipality has reported, outstanding encumbrances amounting to \$382,234 in the general fund at June 30, 2009. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

The Municipality has outstanding construction project commitments amounting to approximately \$6,155,750 at June 30, 2009 for the construction and or improvement of the Convention Center, Casa Loydi, Recreational Facilities, Public Library, Infrastructure and other construction projects.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009
(continued)

The Municipality receives financial assistance from the federal Governments of the United States of America and the Commonwealth in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality.

The 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, 2009, amounted to \$79,524. 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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**FINANCIAL HIGHLIGHTS
NEXT FISCAL YEAR
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2009

	B U D G E T		VARIANCE WITH FINAL BUDGET Positive(Negative)	%
	2010 NEXT PERIOD ORIGINAL	2009 CURRENT PERIOD FINAL		
RESOURCES (inflows):				
Property Taxes	\$ 1,879,727	\$ 1,600,298	\$ 279,429	17%
Volume of Business Taxes	1,100,000	1,100,000	-	0%
Sale and use Tax (IVU)	1,000,000	1,000,000	-	0%
Government of P.R. Contributions	5,264,139	6,170,455	(906,316)	-15%
Contributions in lieu of taxes	1,171,000	1,611,318	(440,318)	-27%
Construction tax	340,000	400,000	(60,000)	-15%
Charges for services	228,500	228,500	-	0%
Rent	125,000	75,000	50,000	67%
Interest	175,000	175,000	-	0%
Other	63,000	62,000	1,000	2%
Amounts available for appropriations	<u>11,346,366</u>	<u>12,422,571</u>	<u>(1,076,205)</u>	-9%
CHARGES TO APPROPRIATIONS (out flows):				
Municipal council	154,058	126,608	27,450	22%
Mayor office	579,918	722,077	(142,159)	-20%
Finances	3,699,014	5,270,471	(1,571,457)	-30%
Public work	2,191,017	2,499,147	(308,130)	-12%
Health	472,653	458,332	14,321	3%
Civil defence - Emergency	431,608	262,613	168,995	64%
Municipal police	569,607	454,943	114,664	25%
Personnel	156,586	124,845	31,741	25%
Sports & recreation	456,770	433,020	23,750	5%
Sanitation	1,243,875	1,097,702	146,173	13%
Elderly centers	174,155	146,034	28,121	19%
Municipal secretary	131,137	70,602	60,535	86%
Public relations	136,869	342,717	(205,848)	-60%
Internal auditor	90,581	63,322	27,259	43%
Purchase department	118,597	97,524	21,073	22%
Historical Center - Cibuco	363,878	264,342	99,536	38%
Planning & development	58,839	60,583	(1,744)	-3%
Vice-major	63,048	48,011	15,037	31%
Reciclaje	71,795	69,317	2,478	4%
Citizen Help	182,361	170,361	12,000	7%
Total charges to appropriations	<u>11,346,366</u>	<u>12,782,571</u>	<u>(1,436,205)</u>	-11%
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ (360,000)</u>	<u>\$ 360,000</u>	

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

**MUNICIPALITY OF COROZAL
RECONCILIATION OF ACTUAL AMOUNTS
BUDGETARY BASIS AND GASB BASIS
GENERAL FUND**

SOURCES / INFLOW OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 12,010,150
Timing differences in revenue recognition in budgetary basis vs. Actual in Statement of Revenues: Property Taxes	(226,130)
Historic Turistic Center of Cibuco revenues are reported as a component unit for financial reporting purposes	(44,455)
Transfers of interest from the debt service fund are not revenue for financial reporting purposes	<u>(9,800)</u>
Total revenues as reported on the Statement of Revenues Expenditures and Changes in Fund Balances - Governmental Funds	<u>\$ 11,729,765</u>

USES / OUTFLOWS OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 12,150,785
Payment of Principal (\$121,733) and interest (\$131,642) for operational loans are reported as expenditure in the budgetary basis while reported as transfer to the debt service fund in the financial reporting basis	(253,375)
Historical Turistic Center of Cibuco expenditures are classified as a component unit for financial reporting purposes	(262,826)
Other obligations considered expenditures for financial reporting purposes but are not expenditures for budgetary basis	28,259
Prior year Encumbrances recorded as current year expenditures for financial reporting not included as expenditure for budgetary basis	1,011,833
Current year Encumbrances recorded as current year expenditures for budgetary basis not included as expenditure for financial reporting	<u>(382,234)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	<u>\$ 12,292,442</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**NOTES TO BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2009**

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.

The budgeted deficiency of \$360,000 considered the utilization of prior years superavits.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009 and 2008**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>2009 EXPENDITURES</u>	<u>2008 EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Housing Choise Voucher	14.871	MP	\$ 667,928	\$ 691,270
Indirect Program:				
Passed through P.R. Office of Municipal Affairs				
Housing Opportunities for Persons with Aids (HOPWA)	14.241		31,983	37,210
State Block Grant Program (SBGP)	14.228	MP	<u>2,292,974</u>	<u>900,247</u>
Total US Department of Housing and Urban Development			<u>2,992,885</u>	<u>1,628,727</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through P.R. Elderly Commission				
Title III, Part C, Nutrition Services	93.045		<u>187,306</u>	<u>172,524</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Direct Program:				
Public Assistance Grants	83.544		<u>-</u>	<u>16,352</u>
US DEPARTMENT OF JUSTICE				
Direct Program:				
Public Safety Partnership and Community Policing Grants (Cops)	16.710		<u>-</u>	<u>302,860</u>
FEDERAL TRANSPORT ADMINISTRATION				
Passed trough Commonwealth of Puerto Rico				
Department of Transportation and Public Works (5311) (PR 18-X017)	20.509		<u>89,440</u>	<u>51,648</u>
US DEPARTMENT OF AGRICULTURE				
Passed through Caguas Area Office				
Rural Economic Development Loans and Grants				
Federal Agriculture	10.854		<u>61,316</u>	<u>39,229</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 3,330,947</u>	<u>\$ 2,211,340</u>

MP = Major Program

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

Notes to the
Schedule of Expenditures of Federal Awards
June 30, 2009

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of COROZAL of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of COROZAL reporting entity is defined in Note 1 to the Municipality's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular *A-133*, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements.

NOTE 2 - RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

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.


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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS 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 governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Corozal as of and for the year ended June 30, 2009, which collectively comprise the Municipality of Corozal, basic financial statements and have issued our report thereon dated November 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of Corozal ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of Corozal financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Corozal internal control. We consider the condition 09-01 deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Condition 09-01.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

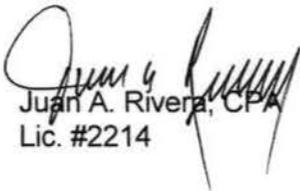
Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Condition 09-01.

We noted certain matters that we reported to management of the Municipality of Corozal, in a separate letter dated November 10, 2009

The Municipality of Corozal response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality of Corozal response and, accordingly, we express no opinion on it.

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


Juan A. Rivera, CPA
Lic. #2214

November 10, 2009
Toa Baja, Puerto Rico



Stamp No. 2470245 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.


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

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

Compliance

We have audited the compliance of the Municipality of Corozal, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Municipality of Corozal major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Corozal management. Our responsibility is to express an opinion on Municipality of Corozal compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of 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 other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Corozal compliance with those requirements.

As described in item Condition 09-01 in the accompanying schedule of findings and questioned costs, Municipality of Corozal, did not comply with requirements regarding Reporting that are applicable to its SBGP Program. Compliance with such requirements is necessary, in our opinion, for Municipality of Corozal, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2009.

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

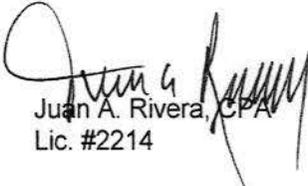
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items Condition 09-01 to be significant deficiencies.

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

The Municipality of Corozal response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality of Corozal response and, accordingly, we express no opinion on it.

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


Juan A. Rivera, CPA
Lic. #2214

November 10, 2009
Toa Baja, Puerto Rico



Stamp No. 2470246 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, 2009

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

Noncompliance material to financial statements noted?	_____ Yes	__X__ No
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<u>Federal Awards</u>	_____ Yes	_____ No
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Internal Control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	__X__ Yes	_____ 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?	__X__ Yes	_____ No
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MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Awards Findings and Questioned Cost

My examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2009 disclosed that grants funds were administered in a satisfactory manner, except for the following situation:

SBGP – CFDA No. 14.228

Condition 09-01 Quarterly Report

The Municipality did not comply with the requirement of preparing and filling its federal financial reports on a timely basis. During our examination of the Federal Financial Reports, we noted that the Municipality did not send on time the quarterly report for the following period ended.

Quarterly	Due/Date	Date Submitted
July - September	October 30, 08	November 7, 08

Criteria

The Municipality is not in compliance with 24 CFR 85.40 (b) (1) which requires federal fund recipients to periodically monitor the performance of grant-supported activities to ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, program management should prepare accurate and timely federal financial reports. The Municipality should submit quarterly or semi-annual reports 30 days after the reporting period. The office of Municipal Affairs granted ten days to this reporting requirement.

Cause

The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program.

Effect

The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment withholdings.

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially when new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from federal government.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2009

Program	Finding/Compliance	Status
Housing Voucher CFDA No. 14.871	Condition 07-1, 08-1 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