

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

**MUNICIPIO DE COROZAL  
AUDITORÍA 2010-2011  
30 DE JUNIO DE 2011**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

**Independent Auditors' Report**

**Basic Financial Statements and  
Supplemental Schedules**

**Year Ended June 30, 2011**

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES  
YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds (Historic and Tourist Center of Cibuco):	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Net Assets	20
Statement of Cash Flows	21
Notes to Financial Statements	22
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	56
Budgetary Comparison Schedule – Debt Service Fund	57
Notes to Budgetary Comparison Schedule	58
Other Supplemental Information:	
Schedule of Expenditure of Federal Awards	59
Notes to Schedule of Expenditure of Federal Awards	60
<b>INTERNAL ACCOUNTING CONTROLS AND COMPLIANCE SECTION</b>	
Independent Auditor's Report on Compliance and on Internal Control	
In accordance with Government Auditing Standards	61
Independent Auditor's Report on Compliance and Internal Control	
In accordance with OMB Circular A-133	63
Schedule of Findings and Questioned Cost	65

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

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

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Members of the  
Municipal Legislature and People of  
the 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, 2011, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

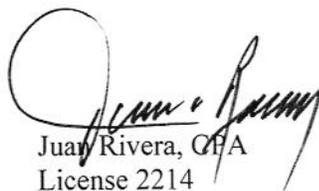
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental 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, 2011, 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 our report dated December 13, 2011 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over a financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* and the *Budgetary Comparison Schedule* on page 3 through 11 and 56 through 58 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Corozal of the Commonwealth of Puerto Rico basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Municipality of Corozal of the Commonwealth of Puerto Rico, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedure applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we express no opinion on them.

  
Juan Rivera, CPA  
License 2214

December 13, 2011  
Toa Baja, Puerto Rico



Stamp No. 2633847 of the Puerto Rico Society of Certified Public Accountants were 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, 2011. 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 \$885,402 (or 3%).

The Municipality Business Type Activities net assets decreased by \$122,467 due to depreciation charges. The Business Type Activities revenue from Municipality contributions decreased \$10,287 (or 4%).

In the fund financial statements, the governmental revenue increased \$2,889,199 (or 18%) while governmental expenditures increased \$655,509 (4%).

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$446,833.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, increased by \$598,748.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$1,434,838.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, increased by \$561,875.

On a budgetary basis, actual revenues exceeded actual expenditures by \$330,469.

Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure amounted to \$3,247,353.

During current year the Municipality issued \$2,515,000 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 \$34,718,623 at the end of current year, compared to \$33,833,221 at the end of the previous- year; this increase of \$885,402 represents the operational result of excess revenues over expenditures. The net assets of the proprietary business type activities totaled \$4,784,374 at the end of current year, compared to \$4,906,841 at the end of the previous- year; this decrease of \$122,467 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 \$31,223,538. 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 (\$2,144,226), amount restricted for other purposes (\$1,690,061) and amounts restricted for capital projects (\$7,865,149), 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, 2011 and 2010**

	<b>Governmental Activities</b>		<b>Proprietary Fund</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Current asset	\$ 7,577,653	\$ 6,176,434	\$ 10,071	\$ 20,365
Capital assets-net	37,714,708	37,012,568	4,784,374	4,906,841
Other assets	<u>10,486,255</u>	<u>9,028,298</u>	<u>-</u>	<u>-</u>
Total assets	<u>55,778,616</u>	<u>52,217,300</u>	<u>4,794,445</u>	<u>4,927,206</u>
Current liabilities	4,674,397	3,897,533	10,071	20,365
Noncurrent liabilities	<u>16,385,596</u>	<u>14,486,546</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>21,059,993</u>	<u>18,384,079</u>	<u>10,071</u>	<u>20,365</u>
Invested in capital assets, net of related debt	26,439,164	25,307,568	4,784,374	4,906,841
Nonspendable funds	307,116	337,172		
Restricted funds	11,699,436	9,846,139		
Committed funds	920,087	356,458		
Deficit	<u>(4,647,180)</u>	<u>(2,014,116)</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 34,718,623</u>	<u>\$ 33,833,221</u>	<u>\$4,784,374</u>	<u>\$4,906,841</u>

**Changes in Net Assets**

The Municipality's governmental activities net assets increases by \$885,402; due to excess revenues over expenses. Approximately 31 percent of the Municipality's revenue came from taxes, while 63 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 6 percent of the total revenues. Current period revenues increased by \$2,889,199 (18%) while expenses increased \$655,509 (4%). The Municipality's expenses cover a range of services. The largest expenses were for general government administration, sanitation, public works, housing, municipal police, health, sports and recreation, interest and depreciation.

The Business type activities net assets decreased by \$122,467 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 decreased \$10,287 or 4%.

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, 2011 and 2010**

**GOVERNMENTAL ACTIVITIES:**

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 1,083,609	\$ 694,372
Operating grants and contributions	3,573,960	1,214,274
Capital grants and contributions	1,169,011	2,012,673
General revenues:		
Property taxes	2,903,301	2,532,992
Municipal license tax	1,122,259	1,056,488
Sales taxes	1,422,681	1,442,703
Interest and investment earnings	363,992	238,040
Grants and contributions not restricted	6,999,198	6,557,270
Total revenues	<u>18,638,011</u>	<u>15,748,812</u>
Expenses		
General Administration	7,477,221	5,700,627
Health	458,331	458,331
Housing	1,028,600	703,450
Emergency management and safety	653,808	705,045
Sports and recreation	472,004	425,638
Sanitation	1,131,505	1,105,044
Elderly centers	281,308	330,375
Interest on long-term debt	647,154	761,256
Depreciation	2,047,607	2,023,079
Public works	3,555,071	2,645,427
Total expenses	<u>17,752,609</u>	<u>14,858,272</u>
Excess revenues over expenses	<u>\$ 885,402</u>	<u>\$ 890,540</u>

**BUSINESS TYPE ACTIVITIES:**

Revenues:		
Grants and contributions	\$ 240,404	\$ 250,691
Fees	36,655	41,605
Total revenues	<u>277,059</u>	<u>292,296</u>
Expenses:		
Operating and maintenance	277,137	292,489
Depreciation	122,389	122,618
Total expenses	<u>399,526</u>	<u>415,107</u>
Excess revenue over expenses	<u>\$ (122,467)</u>	<u>\$ (122,811)</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 \$13,784,914 an increase of \$2,123,229 in comparison with the prior year. There are restricted fund balance amounting to \$11,699,436. 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 pay debt service (\$2,144,226), 3) to pay for capital projects (\$7,865,149) 4) for other purposes (\$1,690,061). The unassigned fund balance amounts to \$658,231 and the nonspendable fund balance amounts to \$307,116, 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, 2011, the general fund has a balance of \$1,338,808. The fund balance of the general fund decreased by \$446,833. Key factors in the increase of the fund balance are as follows:

• Excess revenues over expenditures	\$ 482,092
• Transfer from other governmental funds	\$(928,925)

Revenues increased by \$861,220 (7%) due to an increase in charge for services of \$168,542, an increase of \$441,928 in Contributions from Government of PR, an increase of \$152,377 for interests and a net increase of \$98,373 in all other revenue items. Expenditures increased \$847,753 (8%) due to a \$906,305 increase in General administration, and a net decrease of \$(58,552) for all other expenditures categories.

The **Capital Project Fund** Balance, which is reserved for major capital expenditures, reflected an increase of \$1,434,838 due to excess expenditures over revenues of \$(2,010,254), transfers from the general fund of \$930,092 and preceeds from loans issued of \$2,515,000. Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, and infrastructure in this fund amounted to \$3,063,624.

The **Joint Resolutions Fund** balance increased by \$598,748 due to excess revenues over expenditures.

The **Debt Service Fund** balance reported an increase of \$561,875 as a result of excess revenues over expenditures of \$563,042, and net transfers to general fund of (\$1,167).

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

**Other Governmental Funds** balances decreased by \$25,399 due to excess expenditures over revenues.

**Business-type Activities** net assets decreased by \$122,467. Revenues of the Municipality's business-type activities reported \$277,059 while expenses amounted to \$399,526, including a charge for depreciation of \$122,389. Business Type Activities fee revenue decreased \$4,950 (12%) and revenue from Municipality contributions decreased \$10,287 (4%). Total expenses decreased by \$15,581 (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 over budget by \$90,397 and actual expenditures were under budget by \$240,072, for a net favorable variance of \$330,469. The most significant individual variances for revenues was \$89,031 over budget in Government of Puerto Rico Contributions, and the most significant individual variance in expenditures were \$152,386 and \$40,596 under budget for Finance Department and Municipal Council respectively.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The Municipality's investment in capital assets, including business type activities, as of June 30, 2011, amounts to \$63,303,901, with accumulated depreciation of \$20,804,819, leaving a net book value of \$42,499,082; of which \$37,714,708 are used for governmental activities and \$4,784,374 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 \$3,247,353 for the year. Depreciation charges for the year totaled \$2,169,996, of which \$2,047,607 are related to governmental activities and \$122,389 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, 2011 the Municipality has \$7,718,023 of unexpended proceeds from bond issuances and \$7,544 from other sources, for a total of \$7,725,567 that are committed to future construction activities, including completion of the Convention Center, the reconstruction of the "Plaza Publica", infrastructure construction 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, 2011 the Municipality issued \$2,515,000 in long term debt. As of June 30, 2011 the Municipality Long Term Debt is composed as follows:

Bonds payable	\$ 13,110,000
Notes payable	670,000
Advances from CRIM	<u>1,230,696</u>
	\$ 15,010,696

Other long term obligations consist of \$2,110,303 of accrued compensated absences such as vacations and sick leave and an accrued legal claim of \$200,000.

As of June 30, 2011 the Municipality redemption fund (debt service) has resources of \$2,144,226, restricted for the payment of long term debt principal and interest.

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

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

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

Factors considered when preparing the Municipality's budget for the 2011-2012 fiscal year.

In summary all revenues and expenditures for the general fund were budgeted in \$12,357,785 which represents a net increase of \$100,089 or 1% in estimated revenues; and a net increase of \$100,089 or 1% for expenditure appropriations.

The most significant changes presented between the budget for fiscal year 2010-2011 and the one for fiscal year 2011-2012 are the following:

Finance Department – budget reduction of	\$(843,246)
Public Works Department – budget increase of	367,036
Sanitation Department – budget increase of	153,643
Emergency Management Department – budget increase of	93,981
Contributions to Historical Center – budget increase of	73,098
Citizen Help Department – budget increase of	68,403

**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**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS TYPE ACTIVITIES</b>	<b>2011 TOTAL</b>	<b>2010 TOTAL</b>
<b>Current Assets:</b>				
Cash	\$ 2,020,967	\$ -	\$ 2,020,967	\$ 926,715
Investment	2,800,000		2,800,000	3,300,000
<b>Accounts receivable:</b>				
Other	158,550	10,071	168,621	200,637
Taxes	590,823		590,823	275,881
Due from other governments	2,007,313	-	2,007,313	1,493,566
<b>Total current assets</b>	<u>7,577,653</u>	<u>10,071</u>	<u>7,587,724</u>	<u>6,196,799</u>
<b>Noncurrent Assets:</b>				
Cash held with fiscal agent	10,486,255		10,486,255	9,028,298
Capital Assets (net of depreciation)	37,714,708	4,784,374	42,499,082	41,919,409
<b>Total noncurrent assets</b>	<u>48,200,963</u>	<u>4,784,374</u>	<u>52,985,337</u>	<u>50,947,707</u>
<b>TOTAL ASSETS</b>	<u>55,778,616</u>	<u>4,794,445</u>	<u>60,573,061</u>	<u>57,144,506</u>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	644,619	10,071	654,690	642,351
Due to other governmental units	1,679,433		1,679,433	1,213,385
Deferred Revenues	1,039,182		1,039,182	1,031,412
Accrued interest on Loans	375,760		375,760	236,264
Current portion of long term debt	935,403	-	935,403	794,486
<b>Total current liabilities</b>	<u>4,674,397</u>	<u>10,071</u>	<u>4,684,468</u>	<u>3,917,898</u>
<b>Noncurrent Liabilities:</b>				
Advances from CRIM Law 42	986,441		986,441	1,007,986
Advances from CRIM Law 146	232,838		232,838	243,925
Advances from CRIM - other	11,417		11,417	33,271
Bonds Payable	13,110,000		13,110,000	11,000,000
Notes payable	670,000		670,000	705,000
Legal claims and judgements	200,000		200,000	350,000
Accrued compensated absences	2,110,303		2,110,303	1,940,850
	17,320,999	-	17,320,999	15,281,032
Less: Reported as current portion	(935,403)	-	(935,403)	(794,486)
<b>Total noncurrent liabilities</b>	<u>16,385,596</u>	<u>-</u>	<u>16,385,596</u>	<u>14,486,546</u>
<b>TOTAL LIABILITIES</b>	<u>21,059,993</u>	<u>10,071</u>	<u>21,070,064</u>	<u>18,404,444</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	26,439,164	4,784,374	31,223,538	30,214,409
Non-spendable	307,116		307,116	337,172
Restricted	11,699,436		11,699,436	9,846,139
Committed	920,087		920,087	356,458
Deficit	(4,647,180)	-	(4,647,180)	(2,014,116)
<b>TOTAL NET ASSETS</b>	<u>\$ 34,718,623</u>	<u>\$ 4,784,374</u>	<u>\$ 39,502,997</u>	<u>\$ 38,740,062</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

	PROGRAM REVENUES		OPERATING CAPITAL		NET (EXPENSE) REVENUE	
	EXPENSES	SERVICES	CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES
					2011	2010
					TOTAL	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>						
General Administration	7,477,221	\$ 723,219	\$ 9,727	\$ -	\$ (6,744,275)	\$ (5,240,714)
Public work	3,555,071	360,390	2,251,583	1,169,011	225,913	(84,480)
Health	458,331				(458,331)	(458,331)
Emergency management	233,219		15,981		(217,238)	(248,993)
Municipal Police	420,589		54,727		(365,862)	(441,746)
Sports and recreation	472,004		50,000		(422,004)	(425,638)
Sanitation	1,131,505		696		(1,130,809)	(1,101,872)
Elderly Centers	281,308		162,646		(118,662)	(150,844)
Housing	1,028,600		1,028,600		-	-
Interest on Long Term Debt	647,154				(647,154)	(761,256)
Depreciation	2,047,607				(2,047,607)	(2,023,079)
Total governmental activities	17,752,609	1,083,609	3,573,960	1,169,011	(11,926,029)	(10,936,953)
<b>BUSINESS TYPE ACTIVITIES:</b>						
Operations	277,137	36,655	240,404		(78)	(193)
Depreciation	122,389				(122,389)	(122,618)
Total business type activities	399,526	36,655	240,404		(122,467)	(122,811)
<b>TOTAL ACTIVITIES</b>	<b>\$ 18,152,135</b>	<b>\$ 1,120,264</b>	<b>\$ 3,814,364</b>	<b>\$ 1,169,011</b>	<b>(12,048,496)</b>	<b>(11,059,764)</b>
<b>GENERAL REVENUES:</b>						
Property taxes, levied for general purposes			1,734,301		1,734,301	1,979,727
Property taxes, levied for debt services			1,169,000		1,169,000	553,265
Volume of business taxes			1,122,259		1,122,259	1,056,488
Sale taxes			1,422,681		1,422,681	1,442,703
Government of P.R. Contributions			5,431,850		5,431,850	5,386,270
Contributions in lieu of taxes			1,567,348		1,567,348	1,171,000
Interest			363,992		363,992	238,040
TOTAL GENERAL REVENUES			12,811,431		12,811,431	11,827,493
<b>CHANGES IN NET ASSETS</b>						
			885,402		(122,467)	767,729
Prior period adjustments						
Net assets - beginning of period			33,833,221		4,906,841	37,972,333
Net assets - ending of period			\$ 34,718,623		\$ 4,784,374	\$ 38,740,062

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2011

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2011 TOTAL GOVERNMENTAL FUNDS	2010 TOTAL GOVERNMENTAL FUNDS
Cash	\$ 743,612	\$ 863,115	\$ 7,544	\$ -	\$ 406,696	\$ 2,020,967	\$ 926,715
Cash held with fiscal agent	-	21,714	7,718,023	2,746,518	-	10,486,255	9,028,298
Investment	2,800,000					2,800,000	3,300,000
Accounts receivable:							
Sales Taxes	90,417			30,000		120,417	123,009
Municipal Taxes	8,615					8,615	19,330
Property Taxes	179,423			282,368		461,791	133,542
Accrued interest receivable	3,730	360	3,200	1,100	160	8,550	30,272
Accrued Xmas Bonus reimbursement	150,000					150,000	150,000
Due from other governments	1,567,348	-	-	-	439,965	2,007,313	1,493,566
Due from other funds	439,965	512,947	856,469	-	206,101	2,015,482	1,904,350
<b>TOTAL ASSETS</b>	<b>\$ 5,983,110</b>	<b>\$ 1,398,136</b>	<b>\$ 8,585,236</b>	<b>\$ 3,059,986</b>	<b>\$ 1,052,922</b>	<b>\$ 20,079,390</b>	<b>\$ 17,109,082</b>

ASSETS

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2011  
(Continued)

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2011 TOTAL GOVERNMENTAL FUNDS	2010 TOTAL GOVERNMENTAL FUNDS
<b>LIABILITIES</b>							
Accounts payable	\$ 359,619	\$ -	\$ -	\$ -	\$ -	\$ 359,619	\$ 336,986
Due to other governmental units	1,679,433					1,679,433	1,213,385
Deferred Revenues	744,733				294,449	1,039,182	1,031,412
Accrued employee benefits	285,000					285,000	285,000
Accrued interest on Loans	-			375,760		375,760	236,264
Matured bonds payable	-			540,000		540,000	440,000
Due to other funds	1,575,517	-	-	-	439,965	2,015,482	1,904,350
TOTAL LIABILITIES	<u>4,644,302</u>	<u>-</u>	<u>-</u>	<u>915,760</u>	<u>734,414</u>	<u>6,294,476</u>	<u>5,447,397</u>
<b>FUND BALANCES</b>							
Nonspendable	280,533	-	-	-	26,583	307,116	337,172
Restricted		1,398,136	7,865,149	2,144,226	291,925	11,699,436	9,846,139
Committed	200,000		720,087			920,087	356,458
Assigned	200,044					200,044	299,668
Unassigned	658,231	-	-	-	-	658,231	822,248
TOTAL FUND BALANCES	<u>1,338,808</u>	<u>1,398,136</u>	<u>8,585,236</u>	<u>2,144,226</u>	<u>318,508</u>	<u>13,784,914</u>	<u>11,661,685</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,983,110</u>	<u>\$ 1,398,136</u>	<u>\$ 8,585,236</u>	<u>\$ 3,059,986</u>	<u>\$ 1,052,922</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							
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 (\$17,320,999 - \$540,000) (\$15,281,032 - \$440,000)							
NET ASSETS OF GOVERNMENTAL ACTIVITIES						<u>\$ 34,718,623</u>	<u>\$ 33,833,221</u>
						<u>(16,780,999)</u>	<u>(14,841,032)</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2011 TOTAL GOVERNMENTAL FUNDS	2010 TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>							
Property taxes	\$ 1,734,301	\$ -	\$ -	\$ 1,169,000	\$ -	\$ 2,903,301	\$ 2,532,992
Volume of business taxes	1,122,259					1,122,259	1,056,488
Government of P.R. Contributions	5,431,850	1,067,667	-		747,703	7,247,220	7,301,150
Contributions in lieu of taxes	1,567,348					1,567,348	1,171,000
Construction taxes	360,390					360,390	243,010
Grants and contributions	-		1,169,011		1,758,590	2,927,601	1,312,067
Sales taxes	1,084,751			337,930		1,422,681	1,442,703
Charges for services	274,655					274,655	223,493
Rent	149,165					149,165	164,434
Interest	358,344	361	3,200	1,927	160	363,992	238,040
Miscellaneous	299,399					299,399	63,435
<b>TOTAL REVENUES</b>	<b>12,382,462</b>	<b>1,068,028</b>	<b>1,172,211</b>	<b>1,508,857</b>	<b>2,506,453</b>	<b>18,638,011</b>	<b>15,748,812</b>
<b>EXPENDITURES:</b>							
General Administration	6,800,539		22,478		6,549	6,829,566	5,930,150
Public work	1,849,098	338,217	96,363		1,271,393	3,555,071	2,645,427
Health	458,331					458,331	458,331
Emergency Management	222,457				10,762	233,219	248,993
Municipal Police	414,521				6,068	420,589	456,052
Sports and recreation	461,654				10,350	472,004	425,638
Sanitation	1,099,844				31,661	1,131,505	1,105,044
Elderly Centers	114,839				166,469	281,308	330,375
Housing	-				1,028,600	1,028,600	703,450
Capital Outlay	52,666		3,063,624			3,247,353	4,210,565
Legal Claim	162,196					162,196	150,000
Principal Retirement on Long Term Debt	134,486			428,400		562,886	1,098,992
Interest on Long Term Debt	129,739			517,415		647,154	611,256
<b>TOTAL EXPENDITURES</b>	<b>11,900,370</b>	<b>469,280</b>	<b>3,182,465</b>	<b>945,815</b>	<b>2,531,852</b>	<b>19,029,782</b>	<b>18,374,273</b>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<b>482,092</b>	<b>598,748</b>	<b>(2,010,254)</b>	<b>563,042</b>	<b>(25,399)</b>	<b>(391,771)</b>	<b>(2,625,461)</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2011 TOTAL FUNDS	2010 TOTAL GOVERNMENTAL FUNDS
<b>OTHER FINANCING SOURCES (USES):</b>							
Capital related debt issued	\$ -	\$ -	\$ 2,515,000	\$ -	\$ -	\$ 2,515,000	\$ 4,225,000
Transfers	(928,925)	-	930,092	(1,167)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>(928,925)</u>	<u>-</u>	<u>3,445,092</u>	<u>(1,167)</u>	<u>-</u>	<u>2,515,000</u>	<u>4,225,000</u>
<b>NET CHANGES IN FUND BALANCES</b>	(446,833)	598,748	1,434,838	561,875	(25,399)	2,123,229	1,599,539
Prior periods adjustments: Reclassification	-	-	-	-	-	-	-
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,785,641</u>	<u>799,388</u>	<u>7,150,398</u>	<u>1,582,351</u>	<u>343,907</u>	<u>11,661,685</u>	<u>10,062,146</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 1,338,808</u>	<u>\$ 1,398,136</u>	<u>\$ 8,585,236</u>	<u>\$ 2,144,226</u>	<u>\$ 318,508</u>	<u>\$ 13,784,914</u>	<u>\$ 11,661,685</u>

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23/06/2011

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL

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

FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds	\$ 2,123,229
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 (\$3,247,353) exceed depreciation expense (\$2,047,607) in the current period.	1,199,746
Payment of legal claim	(350,000)
Increase in accrued compensated absences	(169,453)
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	33,994
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 (\$2,515,000) exceeded repayments (\$562,886).	<u>(1,952,114)</u>
Changes in net assets of governmental activities	<u>\$ 885,402</u>

The accompanying notes are integral part of the financial statements.

See auditor's report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
HISTORIC AND TOURIST CENTER OF CIBUCO  
(PROPERTY OF MUNICIPALITY OF COROZAL)**

**June 30, 2011**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets:		
Petty cash	\$ -	\$ -
Cash in Bank	-	-
Accounts receivable:		
Other	10,071	20,365
Allowance for bad debts	-	-
	<u>10,071</u>	<u>20,365</u>
Total current assets	10,071	20,365
Fixed Assets:		
Land	444,367	444,367
Buildings and improvements	5,533,562	5,533,562
Equipment, furniture and fixtures	249,600	249,600
Vehicles	<u>117,180</u>	<u>117,180</u>
	6,344,709	6,344,709
Accumulated depreciation	<u>(1,560,335)</u>	<u>(1,437,868)</u>
Total fixed assets	4,784,374	4,906,841
Other assets:	-	-
Total assets	<u>\$ 4,794,445</u>	<u>\$ 4,927,206</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable - trade	\$ 10,071	\$ 20,365
Other	-	-
Total current liabilities	10,071	20,365
Net assets:		
Net investment in fixed assets	4,784,374	4,906,841
Unrestricted	-	-
Net assets	<u>4,784,374</u>	<u>4,906,841</u>
Total liabilities and net assets	<u>\$ 4,794,445</u>	<u>\$ 4,927,206</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

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

**HISTORIC AND TOURIST CENTER OF CIBUCO  
(PROPERTY OF MUNICIPALITY OF COROZAL)  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>2011</u>	<u>2010</u>
<b>REVENUES:</b>		
Admission fee	\$ 13,555	\$ 18,805
Rental fee	23,100	22,800
Other income - municipal contribution	240,404	250,691
Total revenues	277,059	292,296
<b>EXPENSES:</b>		
Operating and maintenance	277,137	292,296
Depreciation	122,389	122,618
Other	-	193
COST OF OPERATIONS	399,526	415,107
EXCESS COSTS OVER REVENUES	(122,467)	(122,811)
OTHER	-	-
<b>CHANGE IN NET ASSETS</b>	(122,467)	(122,811)
Prior Period Adjustments	-	-
BEGINNING NET ASSETS	4,906,841	5,029,652
ENDING NET ASSETS	\$ 4,784,374	\$ 4,906,841

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**

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

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (122,467)	\$ (122,811)
Adjustment to convert changes in net assets to cash provided by operating activities:		
Depreciation expenses	122,389	122,618
(Increase) Decrease in accounts receivable -	10,294	(18,398)
Increase (Decrease) in accounts payable - trade	(10,294)	18,398
Other items	<u>78</u>	<u>193</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>-</u>	<u>-</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in other equipment	<u>-</u>	<u>-</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>-</u>	<u>-</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	<u>-</u>	<u>-</u>
 <b>NET INCREASE (DECREASE) IN CASH</b>	<u>-</u>	<u>-</u>
 <b>CASH AT BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>
 <b>CASH AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

NOTES TO BASIC FINANCIAL STATEMENTS

<u>INDEX</u>		<u>PAGES</u>
NOTE 1	ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	23
NOTE 2	CREDIT RISK	42
NOTE 3	PROPERTY TAXES	43
NOTE 4	MUNICIPAL LICENSE TAXES	44
NOTE 5	SALES AND USE TAXES	45
NOTE 6	INTERGOVERNMENTAL RECEIVABLES AND PAYABLES	45
NOTE 7	INTER FUND TRANSACTIONS	46
NOTE 8	DEFERRED REVENUE	46
NOTE 9	LONG TERM OBLIGATIONS	47
NOTE 10	CAPITAL ASSETS	51
NOTE 11	EMPLOYEE'S RETIREMENT SYSTEMS	53
NOTE 12	COMMITMENTS AND CONTINGECIES	54

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

**Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2011**

**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, 2011, 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, 2011, 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, 2011**  
(continued)

Other supplementary information presented in this report for purposes of additional analysis consists 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, 2011.

**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, 2011**  
(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**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011:

- (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, 2011, 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.).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011:

**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, 2011**  
(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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011, 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, 2011**  
(continued)

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,

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011, 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, 2011.

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, 2011.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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. GASBI 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, 2011, which are recorded as governmental fund liabilities at June 30, 2011 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.

Executors 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**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**

(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 preliminary 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, 2011**

(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, 2011.

**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 \$743,612 in the general fund were fully collateralized at June 30, 2011. In the other governmental funds there were deposits with commercial banks of \$863,115 in Joint Resolutions Funds, \$7,544 in Capital Project Funds, and \$406,696 in other governmental funds, that were fully collateralized.

The deposits at GDB of \$10,486,255, 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.	\$2,400,000
Doral Bank of P.R.	<u>400,000</u>
Total	<u>\$2,800,000</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

**h) Accounts Receivable**

Receivables consist of all revenues earned but not collected at June 30, 2011. 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, 2011**  
(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:

<b>Description</b>	<b>Years</b>
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, 2011**  
(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, 2011 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, 2011**  
(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, 2011 are recorded as governmental Fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2011). 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, 2011, amounted to \$27,768. 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**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011.

**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. In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB 54 in an effort to improve the consistency in reporting fund balance components, enhance fund balance presentation improve the usefulness of fund balance information and clarify the definition of the governmental fund types.

In summary, GASB 54 introduces entirely new terminology and classification of fund balances in governmental funds. This new standard also establishes a hierarchy of fund classifications as follows:

Non-spendable amounts: That is, the fund balance which cannot be spent as they are associated with assets such as inventory, prepaid expenses, long term receivables or permanent fund principal.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

Spendable amounts: These amounts can be spent, but are classified based on the relative strength of constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, these classifications are:

**Restricted Fund Balance:** This balance represents amounts that are constrained for a specific purpose through restrictions of external parties (i.e. creditors, grantors, contributors, or laws or regulations of other governments), or by constitutional provisions or enabling legislation, pursuant to the definition of "restricted" in paragraph 34 of GASB 34, as amended by GASB 46.

**Committed Fund Balance:** This balance represents amounts that are constrained for specific purposes imposed by a formal action of the government's highest level of decision making authority (i.e. amounts that have been committed by a governing body legislation, ordinance or resolution for a specific purpose). Furthermore, fund balances cannot be used for other purpose unless the government used the same action it took to originally commit the amounts.

**Assigned Fund Balance:** This balance represents amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself (2) a body (e.g. a budget committee) or official to whom the governing body has delegated authority to assign amounts to be used for specific purposes. The key distinction between committed and assigned is that committed monies are set by the highest authority (i.e. the board) and such restrictions can only be removed by this authority.

**Unassigned Fund Balance:** This balance represents the residual amounts for a government's General Fund; it includes all amounts that are not classified in the previous three categories ( restricted, committed and assigned). Furthermore only the General Fund can report unrestricted fund balance.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011:

**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, 2011 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, 2011. 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, 2011.

**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, 2011, (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, 2011, 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, 2011. 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**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

Therefore, the Municipality's management has concluded that at June 30, 2011, 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, 2011.

### **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.

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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011, the related unpaid property tax advances presented in the statement of net assets amounted to \$986,441 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 2010-2011 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, 2011, 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 \$3 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, 2011 amounted to \$1,122,259 in the accompanying financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**

(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 \$744,733 at June 30, 2011. This amount represents the municipal license taxes corresponding to fiscal year ending June 30, 2011 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 \$1,422,681 for the fiscal year ended June 30, 2011.

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") \$1,567,348. This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes; and \$150,000 due from Puerto Rico Government for reimbursement of employee benefits.
- b. **Due from other government** - in the other governmental funds are the following:

Federal Emergency Management Agency (FEMA)	\$ 67,915
Commonwealth of PR - Office of Municipal Affairs (SBGP)	61,168
Commonwealth of PR - Department of Labor (Law 52 )	172,435
Commonwealth of PR – Elderly Commission (Title III-C)	97,567
US Department of Housing and Urban Development (Housing)	<u>40,880</u>
	<u>\$ 439,965</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

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

PR Electric Power Authority	\$1,567,348
PR Retirement System	64,933
PR General Services Administration	4,243
PR Sewer and Sanitary Authority	15,004
PR Workmen Compensation Corporation	24,046
PR Treasury Department	<u>3,859</u>
	<u>\$1,679,433</u>

**7. Inter-fund Transactions**

Inter fund – receivables and payables at June 30, 2011 are summarized as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General	\$ 439,965	\$1,575,517
Other Governmental	206,101	439,965
Joint Resolutions	512,947	-
Capital Project	<u>856,469</u>	<u>-</u>
Total	<u>\$2,015,482</u>	<u>\$2,015,482</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, 2011.

**8. Deferred Revenues**

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

**a. General Fund:**

Deferred revenue of \$744,733 in the general fund is related to municipal license tax collected in fiscal year 2010-2011 that will be earned in fiscal year 2011-2012.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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:

<b>Program Description</b>	
Section 8 Housing Choice Vouchers	\$ 118,135
FEMA	47,747
Elderly Title III	55,070
SBGP	18,703
HOPWA	3,833
Federal Agriculture	14,958
Homeless Prevention	<u>36,003</u>
Total	<u>\$ 294,449</u>

**9. Long-Term Obligations**

a) The general long-term debt activity for the fiscal year ended June 30, 2011 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	\$11,000,000	\$2,515,000	\$ 405,000	\$13,110,000	\$505,000
Notes payable	705,000		35,000	670,000	35,000
Advances CRIM - Law 42	1,007,986		21,545	986,441	22,899
Advances CRIM - Law 146	243,925		11,087	232,838	11,087
Advances CRIM – other	<u>33,271</u>		<u>21,854</u>	<u>11,417</u>	<u>11,417</u>
	12,990,182			15,010,696	585,403
Legal claims	350,000	200,000	350,000	200,000	200,000
Compensated absences	<u>1,940,850</u>	<u>169,453</u>	<u>-</u>	<u>2,110,303</u>	<u>150,000</u>
	<u>\$15,281,032</u>	<u>\$2,884,453</u>	<u>\$ 844,486</u>	<u>\$17,320,999</u>	<u>\$935,403</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, 2011**  
(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, 2011:

	<b><u>Outstanding amount</u></b>
<b><u>General Obligation Bonds:</u></b>	
\$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%	\$ 1,065,000
\$1,310,000 - 2008 municipal general obligation bonds due in annual installments of \$30,000 to \$90,000, through July 1, 2033; (USDA) with interest at 4.875%	1,250,000
\$1,320,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026; with interest ranging from 4.17% to 5.31%	1,090,000
\$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 5.31%	405,000
\$2,010,000 - 2011 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	1,950,000
\$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 4.62%	125,000

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

\$805,000 – 2011 special obligation bond due in annual installments of \$25,000 to \$85,000 through July 1, 2024 with variable interest at 1.5% over prime with a minimum of 6.0%	780,000
\$2,515,000 – 2010 special obligation bond due in annual installments of \$65,000 to \$340,000 through July 1, 2035 with variable interest at 1.5% over prime with a minimum of 6.5%	2,515,000
\$3,420,000 - 2011 municipal general obligation bonds due in annual installments of \$80,000 to \$315,000, through July 1, 2029 with variable interest at 1.5% over prime with a minimum of 6.0%	3,340,000

**Bonds payable from the General Fund:**

\$305,000 - 2005 serial bonds due in annual installments of \$25,000 to \$40,000, through July 1, 2014; with interest at 5.0%	140,000
\$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>450,000</u>
Total bonds payable	<u>\$ 13,110,000</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, 2011 are as follows:

	<b><u>Outstanding Amount</u></b>
\$510,000 – serial 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	490,000
\$400,000 - special lottery fund loan payable in quarterly installments of \$10,000 to \$40,000, through July 1, 2016; with interest at 5.0% payable from operational fund	<u>180,000</u>
Total notes payable	<u>670,000</u>
Total bonds and notes payable	<u>\$ 13,780,000</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

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.

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

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 540,000	\$ 706,816
2013	440,000	808,250
2014	475,000	782,535
2015	490,000	755,200
2016	480,000	727,253
2017-22	2,730,000	3,168,144
2023-27	3,475,000	2,179,354
2028-31	3,250,000	1,013,334
2032-36	<u>1,900,000</u>	<u>215,434</u>
<b>Total</b>	<b><u>\$13,780,000</u></b>	<b><u>\$10,356,320</u></b>

At June 30, 2011, accrued interest payable on bonds and notes amounted to \$342,610, which are recorded in the debt service fund and the statement of net assets.

**c. Advances from- CRIM'**-This amount represents the balance owed to CRIM at June 30, 2011 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.

At June 30, 2011, accrued interest payable on advances from CRIM amounted to \$33,150, which are recorded in the debt service fund and the statement of net assets.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(continued)

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

<b>Year Ending June 30,</b>	<b>LIMS Principal</b>	<b>Law 146 Principal</b>	<b>Law 42 Principal</b>	<b>Interest</b>
2012	\$11,417	\$ 11,087	\$ 22,899	\$ 75,509
2013		11,087	24,337	73,041
2014		11,087	25,866	70,823
2015		11,087	27,492	68,508
2016		11,087	29,219	66,090
2017-21		55,435	176,052	290,149
2022-26		55,435	238,762	210,199
2027-31		55,435	323,808	107,910
2032-33	-	<u>11,098</u>	<u>118,006</u>	<u>8,065</u>
Total	\$11,417	\$232,838	\$ 986,441	\$ 970,294

d. **Compensated absences** – The government wide statement of net assets includes \$2,110,303 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, 2011

Capital assets activity for the fiscal year ended June 30, 2011

	Balance June 2010	Additions (Retirements)	Balance June 2011
<b>Governmental Activities:</b>			
Capital asset, not being depreciated:			
Land	\$ 10,744,569	-	\$ 10,744,569
Construction in progress	<u>3,864,467</u>	<u>(3,020,435)</u>	<u>844,032</u>
Total capital assets not being depreciated	<u>14,609,036</u>	<u>(3,020,435)</u>	<u>11,588,601</u>
Capital assets, being depreciated:			
Buildings and building improvements	19,110,549	3,214,370	22,324,919
Site improvements	2,431,376	105,954	2,537,330
Infrastructure	10,484,644	2,690,353	13,174,997
Equipment	954,636	83,827	1,038,463
Vehicles	<u>6,121,598</u>	<u>173,284</u>	<u>6,294,882</u>
Total capital assets being depreciated	<u>39,102,803</u>	<u>6,267,788</u>	<u>45,370,591</u>
Less accumulated depreciation for:			
Buildings and building improvements	5,394,558	380,459	5,775,017
Site improvements	944,483	69,544	1,014,027
Infrastructure	5,876,075	1,248,095	7,124,170
Equipment	581,926	71,227	653,153
Vehicles	<u>4,399,913</u>	<u>278,204</u>	<u>4,678,117</u>
Total accumulated depreciation	<u>17,196,955</u>	<u>2,047,529</u>	<u>19,244,484</u>
Total capital assets being depreciated, net	<u>21,905,848</u>	<u>4,220,259</u>	<u>26,126,107</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 36,514,884</u>	<u>\$ 1,199,824</u>	<u>\$ 37,714,708</u>
<b>Business Type Activity:</b>			
Capital asset, not being depreciated:			
Land	\$ 444,367	-	\$ 444,367
Capital assets, being depreciated:			
Buildings and building improvements	5,533,562	-	5,533,562
Equipment	249,600	-	249,600
Vehicles	<u>117,180</u>	<u>-</u>	<u>117,180</u>
Total capital assets being depreciated	<u>5,900,342</u>	<u>-</u>	<u>5,900,342</u>
Less accumulated depreciation for:			
Buildings and building improvements	1,106,712	110,672	1,217,384
Equipment	249,129	79	249,208
Vehicles	<u>82,026</u>	<u>11,718</u>	<u>93,744</u>
Total accumulated depreciation	<u>1,437,867</u>	<u>122,468</u>	<u>1,560,335</u>
Total capital assets being depreciated, net	<u>4,462,475</u>	<u>(122,468)</u>	<u>4,340,007</u>
<b>Business Type Activity Capital assets, net</b>	<u>\$ 4,906,842</u>	<u>\$ (122,468)</u>	<u>\$ 4,784,374</u>
<b>Total Municipality Capital assets, net</b>	<u>\$ 41,421,726</u>	<u>\$ 1,077,356</u>	<u>\$ 42,499,082</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011 amounted to \$356,003.

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, 2011**  
(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, 2011, 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. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality has reported, outstanding encumbrances amounting to \$200,044 in the general fund at June 30, 2011. 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 \$9,029,626 at June 30, 2011 for the construction and or improvement of the Convention Center, Antique Theater, Public Park, Recreational Facilities, Infrastructure and other construction projects.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
(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, 2011, amounted to \$27,768. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2011

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>		FINAL BUDGET Positive(Negative)
<b>RESOURCES (inflows):</b>				
Property Taxes	\$ 1,726,720	\$ 1,726,720	\$ 1,654,878	\$ (71,842)
Volume of Business Taxes	1,100,000	1,100,000	1,132,974	32,974
Government of P.R. Contributions	5,347,047	5,342,819	5,431,850	89,031
Contributions in lieu of taxes	1,639,915	1,639,915	1,567,348	(72,567)
Sale and use tax	1,000,000	1,083,800	1,085,004	1,204
Construction Tax	340,000	352,262	360,390	8,128
Charge for services	228,500	264,802	274,655	9,853
Rent	125,000	163,000	172,265	9,265
Interest	200,000	278,726	355,775	77,049
Other	66,000	305,652	312,954	7,302
	<u>11,773,182</u>	<u>12,257,696</u>	<u>12,348,093</u>	<u>90,397</u>
Amounts available for appropriations				
<b>CHARGES TO APPROPRIATIONS (out flows):</b>				
Municipal Council	154,058	154,058	113,462	40,596
Mayor office	579,918	493,700	490,116	3,584
Finance	4,599,168	5,863,099	5,710,713	152,386
Public work	2,013,432	1,856,776	1,853,215	3,561
Health	472,653	472,653	458,331	14,322
Emergency management	346,046	229,037	222,457	6,580
Municipal Police	530,187	423,876	414,521	9,355
Personnel	146,876	78,660	75,689	2,971
Sports and recreation	456,770	466,615	466,329	286
Sanitation	1,190,533	1,036,020	1,032,173	3,847
Elderly Centers	164,726	115,139	114,839	300
Municipal Secretary	120,761	109,185	109,185	-
Public Relations	136,869	267,207	267,047	160
Internal Auditor	79,433	67,085	66,985	100
Purchases Department	106,499	75,531	75,531	-
Planning and Development	58,839	38,782	38,782	-
Vice-Mayor	43,229	21,001	20,442	559
Citizen Help	182,361	143,958	142,999	959
Historical Turistic Center of Cibuco	319,028	277,584	277,137	447
Recicling	71,796	67,730	67,671	59
	<u>11,773,182</u>	<u>12,257,696</u>	<u>12,017,624</u>	<u>240,072</u>
Total charges to appropriations				
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,469</u>	<u>\$ 330,469</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>		FINAL BUDGET <u>Positive(Negative)</u>
<b>RESOURCES (inflows):</b>				
Property Taxes	\$ 508,818	\$ 508,818	\$ 920,174	\$ 411,356
Sales Taxes (IVU)	-	-	340,269	340,269
Interest	-	-	2,118	2,118
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriations	<u>508,818</u>	<u>508,818</u>	<u>1,262,561</u>	<u>753,743</u>
<b>CHARGES TO APPROPRIATIONS (out flows):</b>				
Long term loan amortization	245,000	245,000	328,400	(83,400)
Interest on long term debt	195,543	195,543	377,919	(182,376)
Transfer of interest earned to General Fund	-	-	1,167	(1,167)
Other - reserve	<u>68,275</u>	<u>68,275</u>	<u>-</u>	<u>68,275</u>
Total charges to appropriations	<u>508,818</u>	<u>508,818</u>	<u>707,486</u>	<u>(198,668)</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 555,075</u>	<u>\$ 555,075</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, 2011**

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>2011 EXPENDITURES</u>
<b>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Programs:			
Housing Choice Voucher	14.871	MP	\$ 751,856
Indirect Program:			
Passed through P.R. Office of Municipal Affairs			
Housing Opportunities for Persons with Aids (HOPWA)	14.241		44,779
Homeless Prevention	14.262		191,760
State Block Grant Program (SBGP)	14.228	MP	<u>807,737</u>
Total US Department of Housing and Urban Development			<u>1,796,132</u>
<b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through P.R. Office of Municipal Affairs			
American Recovery and Reinvestment Act (ARRA)	93.383	MP	220,501
Passed through P.R. Elderly Commission			
Title III, Part C, Nutrition Services	93.045		<u>156,049</u>
Total US Department of Health and Human Services			<u>376,550</u>
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>			
Direct Program:			
Public Assistance Grants	83.544		<u>74,409</u>
<b>US DEPARTMENT OF JUSTICE</b>			
Direct Program:			
Public Safety Partnership and Community Policing Grants (Cops)	16.710		<u>5,541</u>
<b>US DEPARTMENT OF AGRICULTURE</b>			
Passed through Caguas Area Office			
Rural Economic Development Loans and Grants			
Federal Agriculture	10.854		<u>39,656</u>
<b>FEDERAL TRANSPORTATION ADMINISTRATION</b>			
Passed through PR Department of Transportation and Public Works Award 2010	20.509	MP	<u>650,563</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 2,942,851</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, 2011

**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.

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Corozal as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Corozal basic financial statements and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in 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 Municipality of Corozal internal control over financial reporting as a basis for designing our auditing procedures for the purpose for the purpose of expressing our opinions of 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.

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 Municipality of Corozal internal control. We consider the deficiencies described in the accompanying schedule of internal control over financial reporting. (2011-1)

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 describe 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.

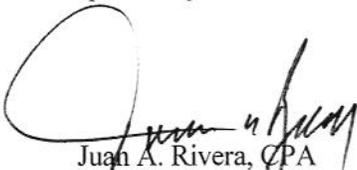
**Compliance**

As part of obtaining reasonable assurance about whether the Municipality of Corozal financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing and opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion. The results of our tests disclosed instances of noncompliance 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 items (2011-1).

We noted certain matters that we reported to management of Municipality of Corozal in a separate letter dated December 13, 2011

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

This report is intended solely for the information and use of management, of the Honorable Mayor and The Municipal Assembly of Municipality of Corozal, others within the entity, and federal awarding agencies and past-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

December 13, 2011  
Toa Baja, Puerto Rico



Stamp No. 2633848 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

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

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

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

We have audited the compliance of 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, 2011. 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 the Municipality of Corozal compliance based on our audit.

**Compliance**

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

As described in item Section II in the accompanying schedule of findings and questioned costs, the Municipality of Corozal did not comply with requirements regarding administrative requirements that are applicable to its SBGP Program. Compliance with such requirement is necessary for the Municipality of Corozal to comply with the federal regulations. Also we want to emphasize that this requirement has not been complied in prior years.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Corozal complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

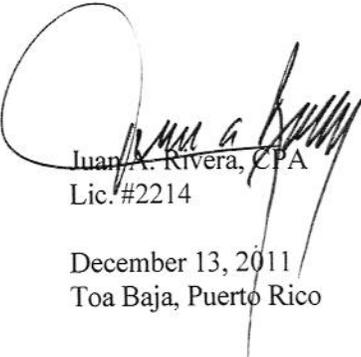
## Internal Control Over Compliance

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

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

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

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

  
Juan A. Rivera, CPA  
Lic. #2214

December 13, 2011  
Toa Baja, Puerto Rico



Stamp No. 2633849 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011

**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	___X___ 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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Federal Awards

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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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011

**Federal Awards Findings and Questioned Cost**

My examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2011 disclosed that grants funds were administered in a satisfactory manner, except for the following situation:

**SBGP – CFDA No. 14.228**

**Condition 11-01 – Cash Management**

The Voucher Program should minimize the time elapsing between transfers of federal funds from agency (OCAM) and disbursement to suppliers.

**Criteria**

Code of Federal Regulation 24 85.21 (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the US Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101.453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury State Agreements or the CMIA default procedures codified at 31 CFR part 205, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Program".

**Cause**

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

**Effect**

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

**Recommendation**

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

**Auditee Response**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST  
FOR THE YEAR ENDED JUNE 30, 2011

Program	Finding/Compliance	Status
SBGP – CFDA No. 14.228	<b>Condition 10-01 – Cash Management</b>  The Voucher Program should minimize the time elapsing between transfers of federal funds from agency (OCAM) and disbursement to suppliers.	Still Prevails