

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

MUNICIPIO DE HUMACAO
AUDITORIA 2006-2007
30 DE JUNIO DE 2007



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DE ASUNTOS MUNICIPALES
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MUNICIPALITY OF HUMACAO, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2007



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MUNICIPALITY OF HUMACAO, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2007

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MUNICIPALITY OF HUMACAO, PUERTO RICO

FINANCIAL SECTION

YEAR ENDED JUNE 30, 2007

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Humacao, Puerto Rico

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Humacao, Puerto Rico, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007, on our consideration of the Municipality of Humacao, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 40 through 41, are not a required part 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 supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

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



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Yauco, Puerto Rico
December 13, 2007

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the original of this report

MANAGEMENT DISCUSSION AND ANALYSIS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The following discussion and analysis of the Municipality of Humacao's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2006 by \$83,495,435 and 2007 by \$91,546,242 (net assets).
- Revenues increased by \$124,426 (.2%) and expenses increased \$2,538,292 (5%) in comparison with year 2006, as restated.
- Net change in net assets amounted to \$8,050,807, a decrease of 23% with respect to prior year (2006) net change.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$55,163,849, an increase of \$23,149,527 in comparison with the prior year.
- The General Fund reported an excess of revenues over expenditures of \$2,305,840 and Transfer to Capital Projects the amount of \$3,290,829. Also, \$1,447,764 was transfer to Debt Service Fund to cover the principal and interests of operating notes. General Fund reported unreserved fund balance of \$9,288,220, an increased of \$2,209,595 from prior year.

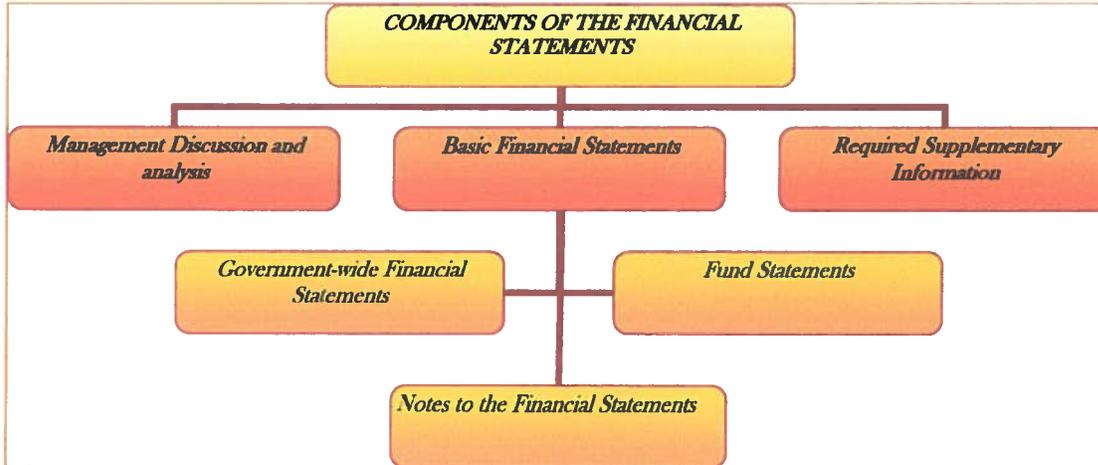
General Financial Highlights

- The investment in net capital assets as of June 30, 2007 was \$62,588,942 (net of related debt).
- Long-Term General and Special Obligations increased to \$44,265,237 approximately 87% with respect to prior year balance, by the issuances of two (2) bonds in the amount of \$21,240,000 for the construction of a Coliseum and an Art Center Buildings.
- Other long-term debts increases and net reductions from payments amounted to \$1,326,841 and \$1,111,593, respectively.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$2,384,807, net of \$4,620,043 designated general fund for future expenditures (transfers out to capital project fund and debt service fund).
- Revenues increase (\$5,650,238) was mainly due to \$4,354,861 of new enacted Sales Taxes, and 1,721,088 of intergovernmental revenues. Expenditures were less than estimated by \$27,918, but transfer out to capital project creates the negative variance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

QVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the *Statement of Net Assets* – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall health of the Municipality. The second statement – the *Statement of Activities* – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements reports as governmental activities the Municipality's basic services such as public safety, public works, health and sanitation, culture and recreation, solid waste disposal, human services and welfare, and community development; education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

Required supplementary information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2007 and 2006:

Table 1		
Statement of Net Assets		
As of June 30,		
	2007	2006
Current and non-current assets	\$ 84,496,914	\$ 55,336,467
Capital assets (As Restated)	<u>76,098,572</u>	<u>72,950,364</u>
Total Assets.....	<u>160,595,486</u>	<u>128,286,831</u>
Current liabilities	3,394,211	3,431,674
Deferred revenues	13,531,497	9,368,740
Long-term liabilities	<u>52,093,536</u>	<u>31,990,982</u>
Total Liabilities.....	<u>69,019,244</u>	<u>44,791,396</u>
Net Assets:		
Investment in capital assets, Net of Related Debt (As Restated)	62,588,942	60,369,431
Restricted	23,367,285	19,074,200
Unrestricted (As Restated).....	<u>5,590,015</u>	<u>4,051,804</u>
Total Net Assets.....	<u>\$ 91,546,242</u>	<u>\$ 83,495,435</u>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 10% with respect to prior year as restated.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$62,588,942; total capital assets (\$102,869,843) less accumulated depreciation (\$26,771,271) and less any related outstanding debt (\$13,509,630) used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The

resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2007 the Municipality presented unrestricted net assets of \$5,590,015. This balance was affected by long term obligations such as compensated absences \$4,689,442 and other debts for the amount of \$2,912,203 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Changes in net assets

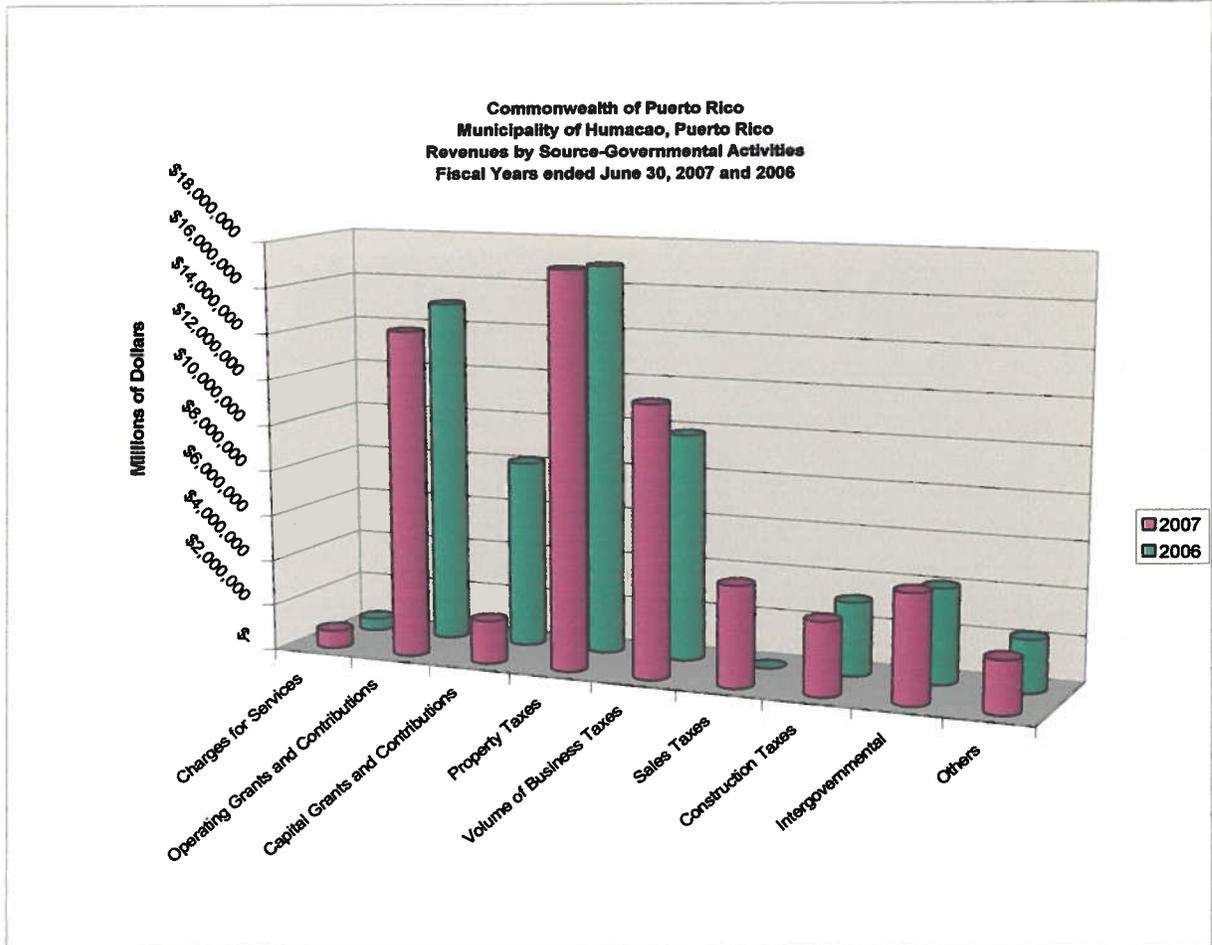
The following table summarizes the changes in net assets for the years ended June 30, 2007 and 2006:

	2007	2006
Revenues:		
Program Revenues:		
Charges for Services	\$ 781,144	\$ 518,383
Operating Grants and Contributions ...	14,226,041	15,049,484
Capital Grants and Contributions	1,866,680	8,169,178
General Revenues:		
Property Taxes.....	17,172,409	16,982,541
Volume of Business Taxes	11,718,520	9,867,284
Sales Taxes	4,354,861	-
Construction Taxes	3,168,514	3,172,352
Intergovernmental	4,685,973	4,095,065
Other General Revenues	2,272,585	2,268,014
Total revenues	<u>60,246,727</u>	<u>60,122,301</u>
Expenses:		
General Administration	20,197,780	18,697,659
Public Safety	2,663,796	2,569,187
Public Works	3,538,710	4,124,978
Culture and Recreation	1,945,079	1,886,960
Health and Sanitation.....	1,888,692	1,918,451
Solid Waste Disposal	2,886,482	2,875,821
Human Services and Welfare	6,422,210	6,699,966
Urban Development	1,885,462	647,472
Education	9,019,632	8,798,200
Interest Costs	1,748,077	1,438,934
Total expenses	<u>52,195,920</u>	<u>49,657,628</u>
Changes in net assets	8,050,807	10,464,673
Net assets – beginning, as Restated*	<u>83,495,435</u>	<u>73,030,762</u>
Net assets – ending	<u>\$ 91,546,242</u>	<u>\$ 83,495,435</u>
Prior Period Adjustment to capital assets is (\$617,600), and (\$73,464) for revenues.		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

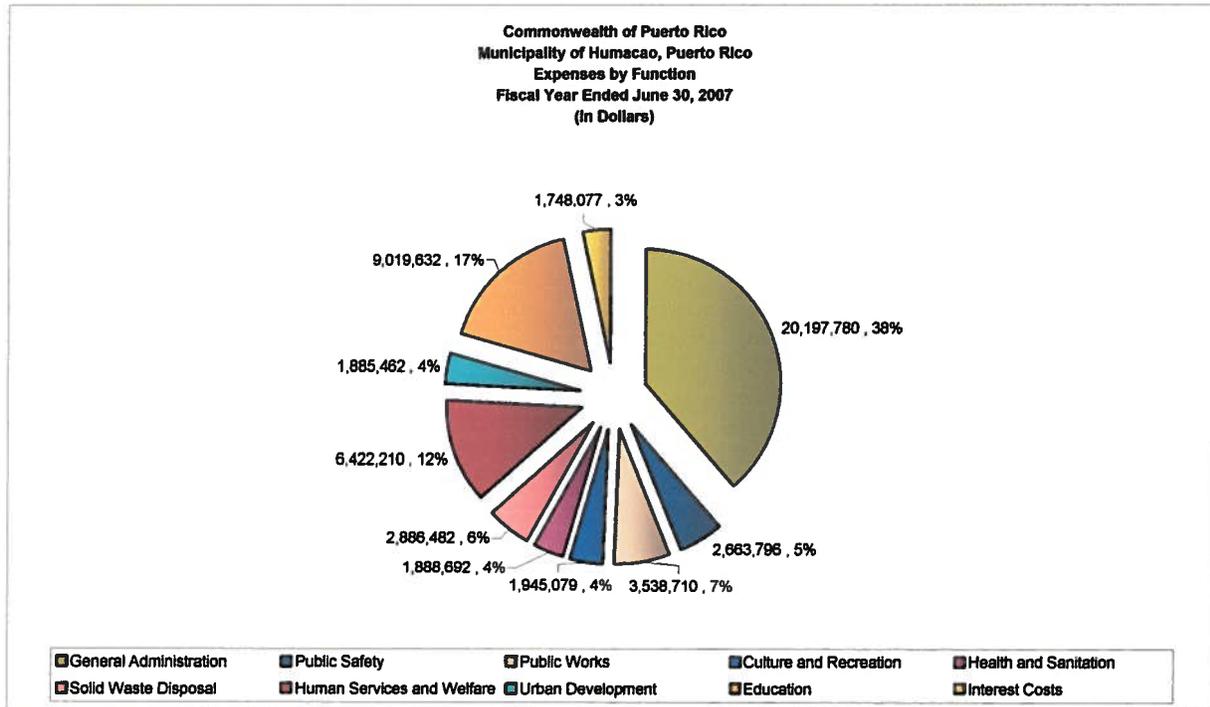
FIGURE 1



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2006-2007:

FIGURE 2



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Approximately 27% of the Municipality's revenues came from grants and contributions, 29% from property taxes, volume of business taxes 19% and 25% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 38.7%, solid waste disposal with 17.3%, urban development with 12.3%, and public works with 6.8%. Program revenues of the Municipality covered 32% of total expenses.

With respect to prior year, revenues increased only by approximately \$124,426 or 0.2%. However, this amount is the result of an increase in recurrent tax revenues, including \$1,851,236 or 19% increase in Volume of Business Taxes and a new Sales and Use Tax generating \$4.35 million in its first year. This significant increase in recurrent revenues offsets a \$7.7 million nonrecurrent capital contribution received in 2006.

Expenses increased 5% or \$2,538,292 in comparison with 2006 year, principally in general administration and urban development.

The following table focuses on the cost of each of the Municipality's largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

TABLE 3

Net Cost of Municipality's Governmental Activities				
Fiscal years ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General Administration	\$ 20,197,780	\$ 18,697,659	\$ 19,416,978	\$ 17,452,674
Public Safety	2,663,796	2,569,187	2,011,975	1,564,387
Public Works	3,538,710	4,124,978	2,522,999	3,035,275
Solid Waste Disposal	2,886,482	2,875,821	2,886,482	2,875,821
Human Services and Welfare	6,422,210	6,699,966	3,582,326	2,385,768
Urban Development	1,885,462	647,472	18,782	(7,125,108)
Education	9,019,632	8,798,200	132,422	1,107,930
Others	5,581,848	5,244,345	4,750,091	4,697,300
TOTAL	\$ 52,195,920	\$ 49,657,628	\$ 35,322,055	\$ 25,994,047

Some of the cost of governmental activities in 2007 was paid by those who directly benefited from the programs (\$781,144) and other governments and organizations that subsidized certain programs with grants and contributions (\$16,092,721). The \$35,322,055 net cost of services was substantially covered by other general revenues including property, volume of business license taxes, sales taxes and intergovernmental.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2007, the governmental funds reported combined ending fund balances of \$55,163,849, a net increase of \$23,149,527 in comparison with the prior year. This increase was caused primarily by a net change in some non-major funds corresponding to issuance of notes \$21.4 million. Of total combined fund balances, \$9,288,220 (17%) constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

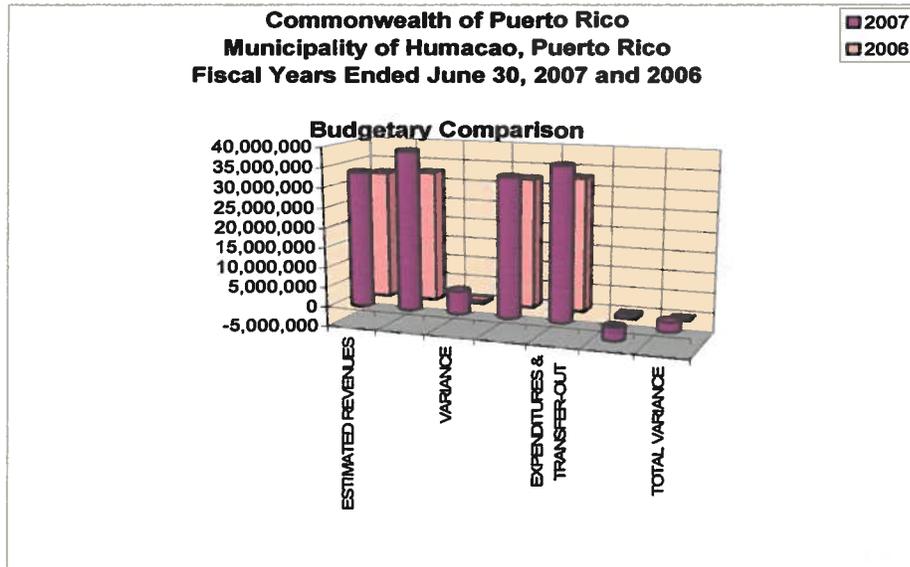
The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 93.4% of total ending general fund balance. For the year ended June 30, 2007, the fund balance of the general fund increased by \$2,305,840 when compared with the prior year. The net increase is due to excess of revenues over expenditures, principally by the new enacted sales taxes that provide \$4.7 million of revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2006-2007 presented an increase of 5.3% with respect to prior year budget. During the fiscal year budget revenues were increased by \$5,650,238 mainly due to excess in intergovernmental and investment, and the new enacted sales taxes, but the Municipality does not included as an amendment to the original budget. Budget expenditures were amended during the year in accordance with functions estimates. Nevertheless, non budgeted transfers to non-major funds were used to pass economies in appropriations to specific capital projects of \$3.3 millions.

A positive variance of \$2,384,807 between revised budget and actual expenditures was due mainly to additional revenues as explain in the preceding paragraph and economies in some functions, but the transfer out to capital project fund of \$3,290,000 reduce the variance. The Municipality reported less expenditure than appropriations in those functions on payments for purchase of supplies, equipment, and professional and nonprofessional services.

FIGURE 3



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$73,567,964 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of \$6,445,779 or over 10% from the prior year, as restated.

TABLE 4

Capital Assets, net As of June 30,		
	Governmental Activities	
	2007	(As restated) 2006
Non-depreciable assets:		
Land	\$ 7,418,626	\$ 6,793,090
Construction in progress	18,559,112	14,911,689
Depreciable assets:		
Buildings	35,234,094	36,126,536
Infrastructure	11,791,894	12,058,082
Motor Vehicles	1,352,607	1,597,299
Equipment	1,435,461	1,020,737
Capital Lease	306,778	442,931
Total	\$ 76,098,572	\$ 72,950,364

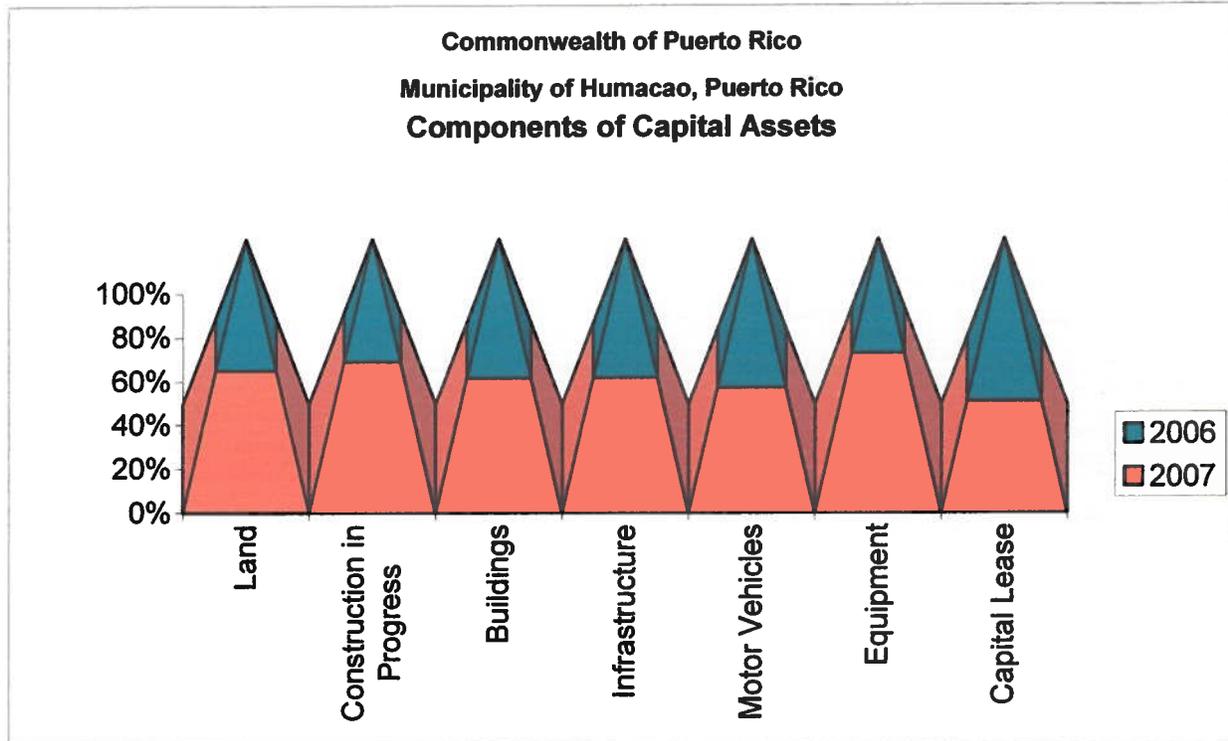
The Municipality invested a total of \$5,426,800 in capital assets during the fiscal year 2006-2007. Principal addition is as follows:

- Construction in Progress – \$3,647,423 – The principal projects are the following:
 - Design of Exclusive Auto Line (\$862,655)
 - Municipal Coliseum (\$374,027)
 - Casona Artistic Center (\$850,813)
 - Emilio Huyke Sport Center (\$705,801)
- Acquisition of Motor Vehicles – \$327,581
- Acquisition of Equipment – \$792,558

Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2007.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FIGURE 4



Long term debt

At year-end, the Municipality had \$44,491,888 in general and special bonds and notes, a net increase of 77.3% with respect to prior year, due to new general obligations bonds of \$21,422,028. The following is a summary of the Municipality's outstanding debt as of June 30, 2007 and 2006:

TABLE 5

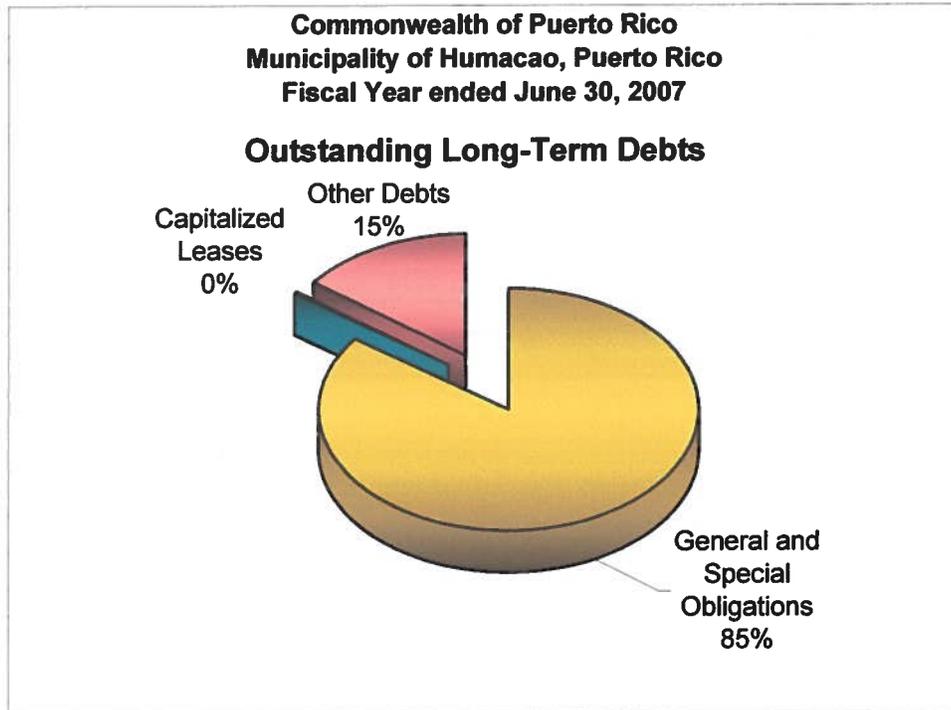
Outstanding Long-term Debts As of June 30,		
	Governmental Activities	
	2007	2006
General and Special Obligation Bonds and Notes	\$ 44,265,237	\$ 24,761,625
Capitalized Leases	226,651	344,689
Others Debts	7,601,645	7,386,397
Total	\$ 52,093,533	\$ 32,492,711

The increase in the others debts is due to recognition of claims and judgments, and increase in compensated absences. More detailed information about the Municipality's long term liabilities is presented in Note 8 and 9 to the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FIGURE 5



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2006-2007 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 13.6%, which compares with the Commonwealth rate of 12.1%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2007 are \$37.5 million, approximately \$5.5 million more than the fiscal year 2006. The Municipality expects an increase in revenues for the next years due to a new sales tax enacted by state legislature and Municipality ordinance during fiscal year 2006-2007. Also, revenues increases from other sources are demonstrative of the economic development from new commerce and stability of the manufacturing industry. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects were develop during the year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Finance Department at [(787) 852-2730] or P.O. Box 178, Humacao, Puerto Rico 00792.

BASIC FINANCIAL STATEMENTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments (Note 2)	\$ 35,080,090
Cash with Fiscal Agent	38,323,556
Receivables (net):	
Property Taxes	38,707
Federal Grants	9,779,179
Others (Note 5)	1,020,430
Deferred Charges	224,952
Capital Assets (Note 6):	
Land, Improvements, and Construction in Progress	25,977,738
Other Capital Assets, [Net of Depreciation].....	<u>50,120,834</u>
TOTAL ASSETS	<u>160,565,486</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	2,464,857
Accrued Interest.....	929,354
Deferred Revenues.....	13,531,497
Long-Term Liabilities (Note 9):	
Due within One Year	6,260,879
Due in More than One Year.....	<u>45,832,657</u>
TOTAL LIABILITIES.....	<u>69,019,244</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	62,686,902
Restricted for:	
Capital Projects.....	46,673
Head Start	4,316,192
Debt Service.....	9,404,827
Community Development Projects	175,742
Other Purposes	9,325,891
Unrestricted (Deficit)	<u>5,590,015</u>
TOTAL NET ASSETS.....	<u>\$ 91,546,242</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,314,951	\$ -	\$ -	\$ -	(\$ 2,314,951)
General Government.....	17,882,829	-	780,802	-	(17,102,027)
Public Safety	2,663,796	-	651,821	-	(2,011,975)
Public Works	3,538,710	-	1,015,711	-	(2,522,999)
Culture and Recreation	1,945,079	-	50,613	-	(1,894,466)
Health and Sanitation.....	1,888,692	781,144	-	-	(1,107,548)
Public Instruction	9,019,632	-	8,887,210	-	(132,422)
Solid Waste Disposal	2,886,482	-	-	-	(2,886,482)
Human Services and Welfare	6,422,210	-	2,839,884	-	(3,582,326)
Urban Development.....	1,885,462	-	-	1,866,680	(18,782)
Interest on Long-Term Debt.....	1,748,077	-	-	-	(1,748,077)
Total Governmental Activities	\$ 52,195,920	\$ 781,144	\$ 14,226,041	\$ 1,866,680	(\$ 35,322,055)

General Revenues:

Taxes:	
Property Taxes, levied for General Purposes	12,325,421
Property Taxes, levied for Debt Service.....	4,846,988
Volume of Business Taxes.....	11,718,520
Sales Taxes	4,354,861
Construction Taxes	3,168,514
Intergovernmental	4,685,973
Rent.....	68,010
Miscellaneous	463,273
Interest	1,741,302
Total General Revenues and Transfers	43,372,862
CHANGE IN NET ASSETS.....	8,050,807
Net Assets – Beginning of Year	83,495,435
NET ASSETS – ENDING OF YEAR.....	\$ 91,546,242

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>GENERAL</u>	<u>HEAD START</u>	<u>DEBT SERVICE</u>	<u>COLISEO USOS MULTIPLES</u>	<u>CENTRO BELLAS ARTES FASE II</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS							
Cash and Investments (Note 1)	\$ 23,015,042	\$ 134,365	\$ -	\$ -	\$ -	\$ 11,930,683	\$ 35,080,090
Cash with Fiscal Agents	5,500	-	10,404,753	10,268,718	10,654,793	6,989,792	38,323,556
Receivables:							
Property Taxes	-	-	38,707	-	-	-	38,707
Federal Grant	-	4,583,530	-	-	-	5,195,649	9,779,179
Due from Other Funds	959,569	-	-	-	-	87,210	1,046,779
Due from Governments	-	-	-	-	-	125,000	125,000
Others	544,358	-	-	-	-	351,072	895,430
TOTAL ASSETS	<u>\$ 24,524,469</u>	<u>\$ 4,717,895</u>	<u>\$ 10,443,460</u>	<u>\$ 10,268,718</u>	<u>\$ 10,654,793</u>	<u>\$ 24,679,406</u>	<u>\$ 85,286,741</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS, Continued
JUNE 30, 2007

	GENERAL	HEAD START	DEBT SERVICE	COLISEO USOS MULTIPLES	CENTRO BELLAS ARTES FASE II	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
LIABILITIES AND FUND BALANCES							
<i>Liabilities:</i>							
Account Payable.....	\$ 1,343,970	\$ 10,779	\$ -	\$ 8,252	\$ -	\$ 871,359	2,234,360
Bonds and Notes Payable.....	-	-	1,955,000	-	-	-	1,955,000
Accrued Interest.....	-	-	929,354	-	-	-	929,354
Due to Governmental Units.....	60,712	-	-	-	-	136,887	197,599
Due to Other Funds.....	-	87,210	109,279	-	-	850,290	1,046,779
Deferred Revenues:							
Volume of Business Tax.....	13,180,425	-	-	-	-	-	13,180,425
Federal Grants.....	-	4,583,530	-	-	-	5,997,845	10,581,375
Total Liabilities.....	<u>14,585,107</u>	<u>4,681,519</u>	<u>2,993,633</u>	<u>8,252</u>	<u>-</u>	<u>7,856,381</u>	<u>30,124,892</u>
Fund Balance (Deficit):							
Reserve For:							
Encumbrances.....	\$ 645,642	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 645,642
Debt Service.....	-	-	7,449,827	-	-	-	7,449,827
Special Revenues.....	5,500	-	-	-	-	-	5,500
Other Purposes.....	-	36,376	-	-	-	-	36,376
Unreserved (Deficit).....	<u>9,288,220</u>	<u>-</u>	<u>-</u>	<u>10,260,466</u>	<u>10,654,793</u>	<u>16,823,025</u>	<u>47,026,504</u>
Total Fund Balances.....	<u>9,939,362</u>	<u>36,376</u>	<u>7,449,827</u>	<u>10,260,466</u>	<u>10,654,793</u>	<u>16,823,025</u>	<u>55,163,849</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$24,524,469</u>	<u>\$4,717,895</u>	<u>\$10,443,460</u>	<u>\$10,268,718</u>	<u>\$10,654,793</u>	<u>\$24,679,406</u>	<u>\$85,288,741</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2007

Total Fund Balances – Governmental Funds (Page 18)..... \$ 55,163,849

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 15)
are different because:

Capital Assets used in governmental activities are not financial resources and therefore are
not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets.....	\$ 25,977,738	
Depreciable Capital Assets	60,506,989	
Infrastructure Assets.....	16,385,116	
Accumulated Depreciation.....	<u>(26,771,271)</u>	
Total Capital Assets.....		76,098,572

Other Assets used in governmental activities are not financial resources and therefore are not
reported in the funds:

Deferred Charges		224,952
------------------------	--	---------

Some of the Municipality's revenues will be collected after year-end but are not available
soon enough to pay for the current period's expenditures and therefore are deferred in
the funds:

CDBG	2,359,729	
Head Start	4,583,530	
Early Head Start	1,368,470	
Other Major Fund	<u>1,918,574</u>	
Total Deferred Revenues.....		10,230,303

Some liabilities are not due and payable in the current period and therefore are not reported
in the funds. Those liabilities consist of:

General Bonds and Special Bonds.....	(42,310,237)	
Note Payable	(958,217)	
Capital Lease.....	(226,651)	
Law 146.....	(730,449)	
Claim and Judgment.....	(478,000)	
Compensated Absences	(4,689,442)	
Section 8 Long-Term Debts.....	(32,901)	
Unemployment	(282,530)	
Property Tax Advances	<u>(463,007)</u>	
Total Long-Term Liabilities		<u>(50,171,434)</u>

Total Net Assets of Governmental Activities (Page 15) \$ 91,546,242

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	GENERAL	HEAD START	DEBT SERVICE	COUSEO USOS MULTIPLES	CENTRO BELLAS ARTES FASE II	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Property Taxes	\$12,325,421	\$ -	\$4,846,988	\$ -	\$ -	\$ -	\$17,172,409
Volume of Business Taxes	11,718,520	-	-	-	-	-	11,718,520
Federal Assistance	-	5,754,433	-	-	-	7,097,395	12,851,828
Intergovernmental	4,685,973	-	-	-	-	2,064,691	6,750,664
Licenses and Permits	3,168,514	-	-	-	-	-	3,168,514
Sales Taxes	4,354,861	-	-	-	-	-	4,354,861
Rent	68,010	-	-	-	-	-	68,010
Interest	1,741,302	-	-	81,682	94,060	-	1,917,044
Miscellaneous	463,273	-	-	-	-	-	463,273
Charges for services	781,144	-	-	-	-	-	781,144
Total Revenues	<u>39,307,018</u>	<u>5,754,433</u>	<u>4,846,988</u>	<u>81,682</u>	<u>94,060</u>	<u>9,162,085</u>	<u>59,246,267</u>
EXPENDITURES							
Current:							
Mayor and Municipal Assembly	1,998,621	-	-	-	-	-	1,998,621
General Government	15,009,337	-	-	-	-	861,254	15,870,591
Public Safety	1,957,462	-	-	-	-	670,262	2,627,724
Public Works	2,652,313	-	-	-	-	54,341	2,706,654
Culture and Recreation	1,332,691	-	-	-	-	85,021	1,417,712
Sanitation	1,886,287	-	-	-	-	-	1,886,287
Public Instruction	-	6,782,192	-	-	-	2,237,440	9,019,632
Solid Waste Disposal	2,886,482	-	-	-	-	-	2,886,482
Human Services and Welfare	3,793,143	-	-	-	-	2,540,944	6,334,087
Urban Development	531,914	-	-	-	-	1,847,096	2,379,010
Amortization of Property Taxes Advances	-	-	-	-	-	-	-
Capital Outlay	332,885	-	-	381,933	-	4,711,982	5,426,800
Debt Service:							
Bond Issue Costs	-	-	118,550	-	-	-	118,550
Principal	-	-	3,138,541	-	-	-	3,138,541
Interest and Other Charges	-	-	1,748,077	-	-	-	1,748,077
Total Expenditures	<u>32,381,135</u>	<u>6,782,192</u>	<u>5,005,168</u>	<u>381,933</u>	<u>-</u>	<u>13,008,340</u>	<u>57,558,768</u>
EXCESS (DEFICIENCY) OF REV ORDER (UNDER) EXPENDITURES	6,925,883	(1,027,759)	(158,180)	(300,251)	94,060	(3,846,254)	1,687,499
OTHER FINANCIAL SOURCES (USES)							
Proceed of Note	-	-	-	10,620,000	10,620,000	222,028	21,462,028
Operating Transfer In	-	-	1,447,764	(59,283)	(59,267)	3,290,829	4,738,593
Operating Transfer Out	(4,620,043)	-	-	-	-	-	(4,738,593)
Total Other Financing Sources and Uses	<u>(4,620,043)</u>	<u>-</u>	<u>1,447,764</u>	<u>10,560,717</u>	<u>10,560,733</u>	<u>3,512,857</u>	<u>21,462,028</u>
Special Item							
Net Change in Fund Balances	2,305,840	(1,027,759)	1,289,584	10,260,466	10,654,793	(333,397)	23,149,527
Fund Balance (Deficit), as Restated at Beginning of Year	7,633,522	1,064,135	6,160,243	-	-	17,156,422	32,014,322
FUND BALANCES - ENDING	<u>\$ 9,939,362</u>	<u>\$ 36,376</u>	<u>\$ 7,449,827</u>	<u>\$ 10,260,466</u>	<u>\$ 10,654,793</u>	<u>\$ 16,823,025</u>	<u>\$ 55,163,849</u>

See accompanying Notes to Basic Financial Statements.

Handwritten signature and date:
J. J. Lopez
6/30/07

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net Change in Fund Balances – Government Funds (Page 20)		\$23,149,527
Amount reported for Governmental Activities in the Statement of Activities (Page 16) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Assets	\$5,426,800	
Depreciation Expense	<u>(2,278,592)</u>	
Excess of Capital Assets over Depreciation Expense		3,148,208
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset		1,000,460
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was		(21,462,028)
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Long-Term Liabilities in the Statement of Net Assets. In the current period repayments were.		3,138,541
Some 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. These activities consist of:		
Increase Bond Issue Costs	134,798	
Decrease in Section 8 Compensated Absences.....	79,789	
Increase in Claim and Judgments	(478,000)	
Decrease in Unemployment Plant.....	188,353	
Increase in Compensated Absences.....	<u>(848,841)</u>	<u>(923,901)</u>
Change in Net Assets of Governmental Activities (Page 16)		<u>\$ 8,050,807</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Humacao, Puerto Rico (Municipality) was founded in the year 1793, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 16 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

GASBS No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balance; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges for support, are not reported since the Municipality don't have such activities.

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The *Statement of Net Assets* presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Governmental Fund Financial Statements

The fund financial statements (the *Balance Sheet*, the *Statement of Revenues, Expenditures, and Changes in Fund Balance Net Assets*) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and separate explanation for each differences.

The Municipality reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when susceptible to accrual; as soon enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. The exceptions to this general rule are the compensated absences and claims and judgments, if any, that are recorded only when payment is due.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Property taxes, volume of business taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The Municipality reports the following major fund:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interests.

Coliseum Fund – This fund is used to account for the construction of a Coliseum in Humacao.

Art Center Fund – This is used to account for the construction of the Art Center in Humacao.

The non-major funds are combined in a single column in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Budgetary Data

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. All encumbrance appropriations in the operating budget lapse at the end of the fiscal year.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

**COMMONWEALTH OF PUERTO RICO
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Interfund transactions of the General are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

E. Cash

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivable are shown net of an allowances for uncollectible, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Equipments	10
Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

I. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 8 on page 34).

J. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy send to the Municipality.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

N. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of transactions among funds:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

O. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Debt Account includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

P. Use of Estimates

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

NOTE 2 CASH

The Municipality's cash at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the Municipality invested its funds in interest bearing bank accounts. As June 30, 2007 the amount of \$6,872,671 and \$17,629,462, and 4861,691 was invested in an interest bearing account in Popular Bank of Puerto Rico, Humacao Branch and Eurobank, Humacao Branch that generates an annual interest rate of 4.28% and 4.33% respectively and First Bank 4.59%.

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

As of June 30, 2007, the Municipality's custodial credit risk was approximately \$17 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, among others.

**COMMONWEALTH OF PUERTO RICO
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NOTE 4 OTHERS RECEIVABLES

As of June 30, 2007, the amount of \$276,675 corresponds to sales taxes receivable within 60 days.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	UNAVAILABLE	UNEARNED
Volume of Business Taxes.....	\$ -	\$13,180,425
Other major funds.....	5,888,329	109,516
Head Start Program	<u>4,583,530</u>	<u>-</u>
Total Deferred/Unearned Revenue	<u>\$10,471,859</u>	<u>\$13,289,941</u>

NOTE 5 INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Due to/from Other Funds at June 30, 2007 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Major Fund	\$ 850,290
General Fund	Debt Service Fund	109,279
Other Major Fund	Head Start Fund	<u>87,211</u>
TOTAL		<u>\$1,046,780</u>

B. INTERFUND TRANSFERS

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Services Fund	\$1,329,214	Bond principal and interest payments
Coliseum	Debt Services Fund	59,283	Bond Issue Costs
Art Center	Debt Services Fund	59,267	Bond Issue Costs
General Fund	Other Major Fund	3,041,600	Budget Specific project funding
General Fund	Other Major Fund	<u>249,229</u>	Non-Budget transfer
	Total	<u>\$4,738,593</u>	

NOTE 6 DUE FROM/TO GOVERNMENTAL UNITS

As of June 30, 2007, balance due from governmental units of the Other Major Fund corresponded reimbursement of Law 52 and Law 82.

The balance due to governmental units of the General Fund for services rendered to the Municipality consists of AEELA (\$46,567), Puerto Rico Water and Sewer Authority (\$13,605) and General Service Adam (\$ 540).

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2007 was as follows:

DESCRIPTION	BALANCE JULY 1, 2006	ADJUSTMENTS	INCREASE	DECREASE	BALANCE JUNE 30, 2007
Non-Depreciable Capital Assets:					
Land	\$ 6,597,999	\$ 195,091	\$ 625,536	\$ -	\$ 7,418,626
Construction in Progress.....	<u>14,911,689</u>	<u>-</u>	<u>3,647,423</u>	<u>-</u>	<u>18,559,112</u>
Total Non-Depreciable Capital Assets.....	<u>21,509,688</u>	<u>195,091</u>	<u>4,272,959</u>	<u>-</u>	<u>25,977,738</u>
Depreciable Capital Assets:					
Buildings.....	49,567,293	(887)	33,702	-	49,600,108
Infrastructure	17,068,499	(683,383)	-	-	16,385,116
Motor Vehicles.....	6,178,318	(3,033)	327,581	-	6,502,866
Equipment.....	3,252,128	(186,515)	792,558	(134,917)	3,723,254
Capital Lease	<u>680,761</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>680,761</u>
Total Depreciable Capital Assets.....	<u>76,746,999</u>	<u>(873,818)</u>	<u>1,153,841</u>	<u>(134,917)</u>	<u>76,892,105</u>
Less Accumulated Depreciation:					
Buildings.....	(13,471,536)	31,666	(926,144)	-	(14,366,014)
Infrastructure	(4,291,709)	(35,325)	(266,188)	-	(4,593,222)
Motor Vehicles.....	(4,596,804)	18,818	(572,273)	-	(5,150,259)
Equipment.....	(2,115,663)	70,787	(377,834)	134,917	(2,287,793)
Capital Lease	<u>(213,011)</u>	<u>(24,819)</u>	<u>(136,153)</u>	<u>-</u>	<u>(373,983)</u>
Total Accumulated Depreciation.....	<u>(24,688,723)</u>	<u>61,127</u>	<u>(2,278,592)</u>	<u>134,917</u>	<u>(26,771,271)</u>
Total Depreciable Capital Assets (Net).....	<u>52,058,276</u>	<u>(812,691)</u>	<u>(1,124,751)</u>	<u>-</u>	<u>50,120,834</u>
CAPITAL ASSETS, NET	<u>\$73,567,964</u>	<u>(\$ 617,600)</u>	<u>\$ 3,148,208</u>	<u>\$ -</u>	<u>\$76,098,572</u>

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Mayor and Municipal Legislature.....	\$ 319,003
General Government.....	205,073
Public Safety.....	182,287
Public Works.....	706,364
Culture and Recreation.....	660,792
Human Services and Welfare.....	113,929
Urban Development.....	<u>91,144</u>
Total Depreciation Expenses.....	<u>\$2,278,592</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

General obligations bonds and notes payable as of June 30, 2007, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$5,200,000, Series 2003-04, for construction purposes, payable in annual installments ranging from \$90,000 to \$405,000, excluding interests at 5.00%, through July 1, 2028.....	\$ 4,915,000
\$4,020,000, Series 2002-03, for the acquisition of building, payable in semiannual installments ranging from \$70,000 to \$310,000, excluding interests at 5.00%, through July 1, 2027	3,720,000
\$1,099,000, Series 1995, for purchase of equipment, payable in semiannual installments ranging from \$24,000 to \$110,000, excluding interests at 5.45%, through July 1, 2013.....	615,000
\$1,415,000, Series 1998, for construction purposes and payment of claims and judgments, payable in semiannual installments ranging from \$95,000 to \$195,000, excluding interests at 7.81%, through July 1, 2007	195,000
\$1,485,000, Series 1995, for construction purposes, payable in semiannual installments ranging from \$45,000 to \$155,000, excluding interests at 5.17%, through July 1, 2014.....	970,000
\$8,395,000, Series 1998, for construction purposes, payable in semiannual installments ranging from \$160,000 to \$775,000, excluding interests at 6.46%, through July 1, 2018.....	6,325,000
\$1,950,000, Series 2001, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$340,000, excluding interests at 7.00%, through July 1, 2008.....	655,000
\$1,720,000, Series 2005, for construction purposes, payable in semiannual installments ranging from \$35,000 to \$120,000, excluding interests at 5.02%, through July 1, 2030.....	1,685,000
\$370,000, Series 2006 for land acquisition, payable in semiannual installments ranging from \$5,000 to \$25,000, excluding interests at 5.02%, through July 1, 2030.....	365,000
\$10,620,000, Series 2006 for construction purposes, payable in semiannual installments ranging from \$ 250,000 to \$ 750,000, excluding interest at 5.525%, through July 1, 2031	10,620,000
\$10,620,000, Series 2006 for construction purposes, payable in semiannual installments ranging from \$ 250,000 to \$ 750,000, excluding interest at 5.525%, through July 1, 2031	<u>10,620,000</u>
Total General Obligations – Bonds.....	<u>40,685,000</u>
Special Obligations – Notes:	
\$4,786,000, Series 1995, for refinancing purpose, payable in semiannual installments ranging from \$126,000 to \$475,000, excluding interests at 7.81%, through July 1, 2013.....	2,665,000

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
Special Obligations – Notes:	
\$2,000,000, Series 1990, for operational purpose, payable in quarterly installments ranging from \$25,000 to \$100,000, excluding interests at 8.00%, through July 1, 2009	\$ 236,842
\$678,395, Rural Development Note, for construction purpose, unobligated until finished the project.....	<u>678,395</u>
Total Special Obligations – Notes	<u>3,580,237</u>
Total General Obligations Bonds and Notes.....	<u>\$44,265,237</u>

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2007 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2008	\$ 2,060,263	\$ 2,530,067	\$ 4,590,330
2009	1,995,263	2,412,631	4,407,894
2010	1,681,316	2,295,997	3,977,313
2011	1,770,000	2,186,775	3,956,775
2012	1,905,000	2,001,085	3,906,085
2013-2017	9,270,000	8,234,609	17,504,609
2018-2022	7,940,000	5,714,773	13,654,773
2023-2027	8,560,000	3,554,438	12,114,438
2028-2031	<u>9,083,395</u>	<u>1,081,773</u>	<u>10,165,168</u>
TOTAL	<u>\$44,265,237</u>	<u>\$30,012,148</u>	<u>\$74,277,385</u>

B. OBLIGATION UNDER CAPITAL LEASES

The Municipality is obligated under certain capital leases accounted for in the Statement of Net Assets. The historical cost, accumulated depreciation, future minimum lease payments at June 30, 2007, are as follows:

Cost	<u>\$680,760</u>
Accumulated Depreciation.....	<u>\$373,983</u>
Monthly Lease Payments	<u>\$128,574</u>
Residual Lease Payment.....	<u>\$ -</u>
YEAR ENDING JUNE 30,	TOTAL PAYMENT
2008	84,110
2009	84,110
2010	56,894
2011	<u>14,245</u>
Total Minimum Lease Payments	239,359
Less: Deferred Interest	<u>12,708</u>
Present Value Minimum Lease Payments.....	<u>\$226,651</u>

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MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

C. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007
Property Taxes – MRCC	\$ 732,652	\$ -	(\$ 732,652)	\$ -
Law 146	732,969	-	(2,520)	730,449
LIMS Debt	1,138,947	-	(180,730)	958,217
Claims and Judgments	-	478,000	-	478,000
Law 42	470,345	-	(7,338)	463,007
Unemployment	470,883	-	(188,353)	282,530
Compensated Absences	<u>3,840,601</u>	<u>848,841</u>	<u>-</u>	<u>4,689,442</u>
TOTAL.....	<u>\$ 7,386,397</u>	<u>\$ 1,326,841</u>	<u>(\$ 1,111,593)</u>	<u>\$ 7,601,645</u>

D. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2006:

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$20,637,000	\$ 21,240,000	(\$ 1,192,000)	\$40,685,000	\$ 1,655,000	\$39,030,000
Special	4,124,625	222,028	(766,416)	3,580,237	405,263	3,174,974
Capital Lease	344,689	-	(118,038)	226,651	76,924	149,727
Others Debts	<u>7,386,397</u>	<u>1,326,841</u>	<u>(1,111,593)</u>	<u>7,601,645</u>	<u>4,123,692</u>	<u>3,477,953</u>
TOTAL.....	<u>\$32,492,711</u>	<u>\$22,788,869</u>	<u>(\$ 3,188,047)</u>	<u>\$52,093,533</u>	<u>\$ 6,260,879</u>	<u>\$45,832,654</u>

NOTE 9 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 10).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 8). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 10 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

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NOTE 10 PROPERTY TAXES, (continuation)

The tax rate per annum is 7.53% for real property and 5.33% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 6.50% and 4.50%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 5.25% and 3.25%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000, to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 11 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 12 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 13 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$6,600 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2007 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2007 was as follow:

	LAW NO. 447	SYSTEM 2000
Required	<u>\$596,657</u>	<u>\$337,863</u>
Actual	<u>\$596,657</u>	<u>\$337,863</u>

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2007. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

NOTE 14 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The Community Development Block Grant had a federal audit by Federal Agency and the report presents a liability of \$169,126 of questioned costs.

The U.S. Department of Housing and Urban Development has determined that the Municipality's financial management system did not fully comply with applicable HUD requirements. The system did not properly identify the allocate more than \$1.2 million in program income, did not properly allocate more than \$315,500 in administration salaries, allowed the use of more than \$66,500 for ineligible expenditures, and could not account for more than \$79,700 in Block Grant receipts.

The San Juan Office of Community Planning and Development require the Municipality to repay \$102,533 in excessive costs and \$66,593 in ineligible operating expenditures.

NOTE 15 NET ASSETS RESTATEMENTS

During fiscal year 2002-2003, the Municipality implemented several new accounting standards and an interpretation issued by GASB. As part of the implementation of the new standards, during the current fiscal year 2006-2007, the Municipality continued the documentation of capital assets not previously reported and others adjustment.

The following schedules reconcile the June 30, 2006 Net Assets, as previously reported to Beginning Net Assets, as Restated, July 1, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 15 NET ASSETS RESTATEMENTS (continuation)

	NET ASSETS
Net Assets, as Previously Reported, June 30, 2006	\$84,039,571
Adjustments to Revenues recognized prior year CDBG.....	(120,129)
Adjustments to Revenues not recognized Head Start.....	292,148
Adjustments to Revenues recognized prior year Other major funds	(98,555)
Adjustment to Capital Assets.....	<u>(617,600)</u>
Beginning Net Assets, as Restated, July 1, 2007.....	<u>\$83,495,435</u>

NOTE 16 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued the following pronouncement that does not apply to the Municipality:

GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Period beginning after December 15, 2006)

GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension* (Period beginning after December 15, 2007)

GASBS No. 48, *Sales and Pledges of Receivables and Future Revenues* (Period beginning after December 15, 2006)

GASBS No. 49, *Pollution Remediation* (Period beginning after December 15, 2007)

GASBS No. 50, *Pension Disclosures* (Period beginning after June 15, 2007)

GASBS No. 51, *Intangible Assets* (Period beginning after June 15, 2009)

END OF NOTES

MUNICIPALITY OF HUMACAO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2006	<u>\$ 5,345,501</u>	<u>\$ 5,345,501</u>	<u>\$ 5,345,501</u>	<u>\$ -</u>
Resources (Inflows):				
Property Taxes	13,001,810	13,001,810	12,325,421	(676,389)
Volume of Business Taxes	11,390,000	11,390,000	11,718,520	328,520
Intergovernmental Revenues	2,964,885	2,964,885	4,685,973	1,721,088
License and Permits	4,003,085	4,003,085	3,168,514	(834,571)
Sales Taxes	-	-	4,354,861	4,354,861
Rent	47,000	47,000	68,010	21,010
Charges for Services	500,000	500,000	781,144	281,144
Interest	1,100,000	1,100,000	1,741,302	641,302
Miscellaneous	650,000	650,000	463,273	(186,727)
Total Resources (Inflows)	<u>33,656,780</u>	<u>33,656,780</u>	<u>39,307,018</u>	<u>5,650,238</u>
Amounts Available for Appropriation	<u>39,002,281</u>	<u>39,002,281</u>	<u>44,652,519</u>	<u>5,650,238</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	2,034,021	2,196,086	2,162,907	33,179
General Government	14,799,226	14,772,329	15,099,799	(327,470)
Public Safety	2,336,949	2,067,106	1,969,361	97,745
Public Works	2,698,345	2,679,806	2,776,485	(96,679)
Culture and Recreation	1,369,635	1,385,963	1,370,657	15,306
Sanitation	2,010,877	1,903,030	1,886,287	16,743
Solid Waste Disposal	2,700,000	2,892,768	2,886,482	6,286
Human Services and Welfare	4,048,503	3,937,129	3,841,391	95,738
Urban Development	794,873	684,594	531,914	152,680
Capital Outlays	275,621	367,275	332,885	34,390
Transfer to Other Funds	588,730	1,326,694	4,620,043	(3,293,349)
Total Charges to Appropriations	<u>33,656,780</u>	<u>34,212,780</u>	<u>37,478,211</u>	<u>(3,265,431)</u>
BUDGETARY FUND BALANCE, JUNE 30, 2007	<u>\$ 5,345,501</u>	<u>\$ 4,789,501</u>	<u>\$ 7,174,308</u>	<u>\$ 2,384,807</u>

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Available for Appropriations	\$44,652,519
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a Budgetary Resource but is not a Current Year Revenue	<u>(5,345,501)</u>
Total Revenues as Reported on Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance.....	<u>\$39,307,018</u>
Uses/Outflows of Resources:	
Total Charges to Appropriations	\$37,478,211
Difference – Budget to GAAP:	
Prior Year Expenditures are not outflows of budgetary resources but are expenditures for financial reporting purposes.....	168,609
Encumbrances for supplies and equipment ordered but not received are reported in the year. The order is placed for budgetary purposes.....	(645,642)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	<u>(4,620,043)</u>
Total Expenditures as reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20).....	<u>\$32,381,135</u>

NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2007	\$ 7,174,308
Timing Differences:	
Net Change in Encumbrances	288,236
Non-Budgetary Items	2,471,318
Perspective Differences:	
Designated for Special Revenue.....	<u>5,500</u>
Undesignated Fund Balance, June 30, 2007	<u>\$ 9,939,362</u>

END OF THIS SECTION

MUNICIPALITY OF HUMACAO, PUERTO RICO

SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2007

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

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Trough Rural Development:			
Water and Waste Disposal System for Rural Communities.....	10.760		\$ 265,960
Pass-Through Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>920,992</u>
Total U.S. Department of Agriculture			<u>1,186,952</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grant/Entitlement Grants (CDBG).....	14.218		1,862,676
Emergency Shelter Grants Program (ESG)	14.231		43,965
Section 8 Housing Choice Vouchers	14.871		<u>2,187,845</u>
Total U.S. Department of Housing and Urban Development....			<u>4,094,486</u>
U.S. Department of Justice:			
Byrne Formula Grant Program	16.579		1,686
Public Safety Partnership and Community Policing Grants	16.710		79,587
Local Law Enforcement Block Grants Program	16.592		<u>76,997</u>
Total U.S. Department of Justice			<u>158,270</u>
U.S. Department of Transportation:			
Federal Transit – Capital Investment Grants.....	20.500		54,341
U.S. Department of Homeland Security:			
Public Assistance Grants.....	97.036		11,688
Hazard Mitigation Grant (HMGP)	97.039		1,075
State Domestic Preparedness Equipment Support Program (HSPG) (Cluster)	97.004		<u>375,476</u>
Total U.S. Department of Homeland Security.....			<u>388,239</u>
U. S. Department of Health and Human Services:			
Pass-Through Elderly Office:			
Special Programs for the Aging – Title III, Part C – Nutritional Services	93.045	N/AV	81,917
Pass-Through Administration of Families and Children:			
Child Care and Development Block Grant	93.575	N/AV	179,032
Early Head Start Program	93.600		1,316,448
Head Start Program.....	93.600	N/AV	<u>6,782,192</u>
Total U.S. Department of Health and Human Services			<u>8,359,589</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$14,241,877</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Humacao, Puerto Rico (Municipality) and is presented on the modified accrual basis. 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, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass through entity and identifying number assigned by the pass through entity for federal awards received as a subrecipient. Numbers identified as N/AV are not available.

NOTE 5 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund as follows: Head Start \$6,782,192 and Other Governmental Funds \$7,459,685.

NOTE 6 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



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

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Humacao, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Humacao, Puerto Rico**, as of and for the year ended June 30, 2007, which collectively comprise the Municipality of Humacao, Puerto Rico's basic financial statements and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 Humacao, Puerto Rico's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of Humacao, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Humacao, Puerto Rico's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

[Faint signature]

Compliance and Other Matters

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

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


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 13, 2007

Stamp #2263778 was affixed to
the original of this report

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

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Humacao, Puerto Rico

Compliance

We have audited the compliance of **Municipality of Humacao, Puerto Rico** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipalities of Humacao, Puerto Rico's 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 Municipality of Humacao, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Humacao, Puerto Rico's compliance based on our audit.

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

In our opinion, Municipality of Humacao, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Municipality of Humacao, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Humacao, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Humacao, Puerto Rico's internal control over compliance.

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

Internal Control Over Compliance, (Continued)

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Municipality of Humacao, Puerto Rico's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Humacao, Puerto Rico's response and, accordingly, we express no opinion on it.

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


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 13, 2007

Stamp #2263779 was affixed to
the original of this report

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Control deficiency identified? Yes None reported
 - Significant deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Control deficiency identified? Yes None reported
- Significant deficiency identified? Yes None reported
- Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grant – Entitlement Grants
14.871	Section 8 – Rental Housing Choice Vouchers
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$427,256

Auditee qualified as low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST

NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

Year	Finding Number	Finding	Number	CFDA Questioned Cost(s)	Comments
2006	2006-1	Delinquency in submitting HUD-50058 Family Reports of Section 8 program	14.871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2006	2006-2	Timely verification procedures subsequent to housing unit inspections to verify corrections by owner.	14.871	\$2,501	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2006	2006-3	Using non-current utility allowance schedule.	14.871	\$405	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2006	2006-4	Deficiencies in Tenant Reexaminations and Income Determinations	14.871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2005	2005-III-5	Deficiencies in Housing Quality Standards inspections.	14.871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2004	04-06	Certain vouchers were awarded considering incorrect or incomplete Utility Allowance Schedules.	14.871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2004	04-07	Deficiencies in Housing Quality Standards inspections.	14.871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2004	04-08	Deficiencies in participant files, including non-compliance with various HUD guidelines.	14.871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2004	04-09	Deficiencies in participant files, including compliance with the requirement of determining income eligibility and evidence.	14.871	None.	Finding was not noted during the 2007 audit. Has not been cleared by Grant Agency.

(1) Audit Findings that have been fully corrected or not noted during our audit:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Audit Findings that have been fully corrected or not noted during our audit (continued):

2004	04-06	Certain vouchers were awarded considering incorrect or incomplete Utility Allowance Schedules.	14,871	None.	Situation was corrected by the Municipality. Has not been cleared by Grant Agency.
2004	04-17	Excess time elapsed between receipt and disbursement of funds.	93,600	None.	Finding was not noted during the 2007 audit. Has not been cleared by Grant Agency.
2003	03-III-01	Deficiencies related to Special Tests and Provisions	14,871	None.	Finding was not noted during the 2007 audit. Has not been cleared by Grant Agency.
2003	03-III-02	Excess cash maintained in bank accounts of program (cash management).	14,218 14,856 14,871	None.	Finding was not noted during the 2007 audit. Has not been cleared by Grant Agency.

(2) Audit Findings not corrected or partially corrected:

NONE.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE.

(4) Corrective action taken is significantly different from corrective action previously reported:

NONE.

END OF SCHEDULE



Estado Libre Asociado de Puerto Rico • Municipio Autónomo de Humacao
Honorable Marcelo Trujillo Panisse, Alcalde

Box 178, Humacao, PR 00792 • Teléfono: 656-0400

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

08-343

JAN 22 AM 8:31

RECIBIDO
UNIDAD DE CORREO

8 de marzo de 2007

Lcdo. Angel M. Castillo
Comisionado
Oficina del Comisionado de Asuntos Municipales
P. O. Box 70167
San Juan, PR 00936-8167

Licenciado Castillo:

Me place acompañar una (1) copia del Independent Auditor's Reports on General Purpose Combined Financial Statements" (Single Audit Report) del Municipio de Humacao para el año fiscal terminado al 30 de junio de 2007. También se incluye el Informe Especial de los Auditores Independientes sobre el cumplimiento con las recomendaciones del Contralor y la corrección de fallas señaladas en los Informes de Auditoría del Contralor Núm. M-03-55 y M-03-60 del 12 y 21 de junio de 2003. No incluimos un Plan de Acción Correctiva debido a que el informe no reflejó ningún hallazgo de auditoría.

De tener alguna duda o necesitar información adicional sobre estos informes puede comunicarse con el Sr. José A. Carrasquillo, Director de Finanzas al 852-2730 ó al 852-3066 ext. 2315.

Cordialmente,

Marcelo Trujillo Panisse
Alcalde

c Sr. José A. Carrasquillo
Director de Finanzas

Cartas Of. Alcalde/Envio Single Audit 2007-15-enero-2008

08 JAN 22 PM 3:09

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES



FORM **SF-SAC**
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO

**Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132**

PART I

GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)

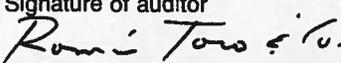
<p>1. Fiscal period ending date for this submission</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:33%;">Month</td> <td style="width:33%;">Day</td> <td style="width:33%;">Year</td> </tr> <tr> <td align="center">06</td> <td align="center">/ 30</td> <td align="center">/ 2007</td> </tr> </table> <p>Fiscal Period End Dates Must Be In 2004, 2005, or 2006</p>	Month	Day	Year	06	/ 30	/ 2007	<p>2. Type of Circular A-133 audit</p> <p>1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit</p>														
Month	Day	Year																			
06	/ 30	/ 2007																			
<p>3. Audit period covered</p> <p>1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - Months</p>	<p>4. FEDERAL GOVERNMENT USE ONLY</p> <p>Date received by Federal clearinghouse</p>																				
<p>5. Auditee Identification Numbers</p> <p>a. Primary Employer Identification Number (EIN)</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:20px; text-align:center;">6</td> <td style="width:20px; text-align:center;">6</td> <td style="width:20px; text-align:center;">-</td> <td style="width:20px; text-align:center;">0</td> <td style="width:20px; text-align:center;">4</td> <td style="width:20px; text-align:center;">3</td> <td style="width:20px; text-align:center;">3</td> <td style="width:20px; text-align:center;">5</td> <td style="width:20px; text-align:center;">1</td> <td style="width:20px; text-align:center;">4</td> </tr> </table> <p>b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p>c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.</p> <p>d. Data Universal Numbering System (DUNS) Number</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:20px; height: 20px;"></td> </tr> </table> <p>e. Are multiple DUNS covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</p>		6	6	-	0	4	3	3	5	1	4										
6	6	-	0	4	3	3	5	1	4												

<p>6. AUDITEE INFORMATION</p> <p>a. Auditee name MUNICIPALITY OF HUMACAO</p> <p>b. Auditee address (Number and street) PO BOX 178 City HUMACAO</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:30%;">State</td> <td style="width:30%;">ZIP + 4 Code</td> <td style="width:40%;"></td> </tr> <tr> <td align="center">PR</td> <td align="center">0 0 7 9 2 -</td> <td></td> </tr> </table> <p>c. Auditee contact Name HON. MARCELO TRUJILLO PANISSE</p> <p>Title MAYOR</p> <p>d. Auditee contact telephone (787) 852 - 3066</p> <p>e. Auditee contact FAX (787) 656 - 5411</p> <p>f. Auditee contact E-mail</p>	State	ZIP + 4 Code		PR	0 0 7 9 2 -		<p>7. AUDITOR INFORMATION (To be completed by auditor)</p> <p>a. Auditor name ROMAN TORO & CO.,CSP</p> <p>b. Auditor address (Number and street) PO BOX 3043 City YAUCO</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:30%;">State</td> <td style="width:30%;">ZIP + 4 Code</td> <td style="width:40%;"></td> </tr> <tr> <td align="center">PR</td> <td align="center">0 0 6 9 8 -</td> <td align="center">3 0 4 3</td> </tr> </table> <p>c. Auditor contact Name CPA JOSE D. ROMAN</p> <p>Title PARTNER</p> <p>d. Auditor contact telephone (787) 856 - 6220</p> <p>e. Auditor contact FAX (787) 856 - 6233</p> <p>f. Auditor contact E-mail CPAJOSEDRT@AOL.COM</p>	State	ZIP + 4 Code		PR	0 0 6 9 8 -	3 0 4 3
State	ZIP + 4 Code												
PR	0 0 7 9 2 -												
State	ZIP + 4 Code												
PR	0 0 6 9 8 -	3 0 4 3											

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official	Date
	Month Day Year 12 / 20 / 07
Printed Name of certifying official	
Marcelo Trujillo Panisse	
Printed Title of certifying official	
Alcalde (Mayor)	

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor	Date
	Month Day Year 12 / 20 / 2007

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 427,256

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1 Yes 2 No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1 Yes 2 No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1 Yes 2 No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 Yes 2 No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input checked="" type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 15 <input type="checkbox"/> Interior | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 16 <input type="checkbox"/> Justice | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 17 <input type="checkbox"/> Labor | | <input type="text"/> |
| | 09 <input type="checkbox"/> Legal Services Corporation | | <input type="text"/> |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting packages 4

PART III FEDERAL PROGRAMS - Continued

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) (a)	Audit finding reference number(s) (b)
Federal Agency Prefix (a)	Extension (b)					Major program	If yes, type of audit report (h)		
10	760	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WATER AND WASTE DISPOSAL SYSTEM FOR RURAL COMMUNITIES	\$ 265,960.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
10	558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 920,992.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
14	218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 1,862,676.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
14	231	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EMERGENCY SHELTER GRANTS PROGRAM	\$ 43,965.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
14	871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM	\$ 2,187,845.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
16	579	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	BYRNE FORMULA GRANT FORMULA	\$ 1,686.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
16	710	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC SAFETY PARTNERSHIP ADN COMMUNITY POLICING GRANTS	\$ 79,587.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
16	592	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANTS PROGRAM	\$ 76,997.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
97	039	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HAZARD MITIGATION GRANT	\$ 1,075.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
20	500	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FEDERAL TRANSIT- CAPITAL INVESTMENT GRANTS	\$ 54,341.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 14,241,877.00					

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS

- ¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.
⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.
⁵ N/A for NONE
- A. Activities allowed or unallowed
 - B. Allowable costs/cost principles
 - C. Cash management
 - D. Davis - Bacon Act
 - E. Eligibility
 - F. Equipment and real property management
 - G. Matching, level of effort, earmarking
 - H. Period of availability of Federal funds
 - I. Procurement and suspension and debarment
 - J. Program income
 - K. Real property acquisition and relocation assistance
 - L. Reporting
 - M. Subrecipient monitoring
 - N. Special tests and provisions
 - O. None
 - P. Other

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR										10. AUDIT FINDINGS		
Federal Agency Prefix 1 (a)	CFDA Number Extension 2 (b)	Research and development (c)		Name of Federal program (d)	Amount expended (e)	Direct award (f)		Major program (g)		Type(s) of compliance requirement(s) 4 (a)	Audit finding reference number(s) 5 (b)	
		1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No			1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	Major program	If yes, type of audit report 3 (h)			
9 3	.045	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAMS FOR THE AGING- TITLE III, PART C NUTRITIONAL SERVICES	\$ 81,917 .00	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	O	N/A	
9 3	.575	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANTS	\$ 179,032 .00	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	O	N/A	
9 3	.600	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	EARLY HEAD START PROGRAM	\$ 1,316,448 .00	1 <input checked="" type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes	2 <input type="checkbox"/> No	O	N/A	
9 3	.600	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 6,782,192 .00	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes	2 <input type="checkbox"/> No	O	N/A	
9 7	.036	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANTS	\$ 11,688 .00	1 <input checked="" type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	O	N/A	
9 7	.004	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM (HSPG)	\$ 375,476 .00	1 <input checked="" type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input checked="" type="checkbox"/> No	O	N/A	
		1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes	2 <input type="checkbox"/> No			
TOTAL FEDERAL AWARDS EXPENDED					\$ 14,241,877 .00							

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPIY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS

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 3 If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.
 4 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.
 A. Activities allowed or unallowed E. Eligibility L. Reporting
 B. Allowable costs/cost principles F. Equipment and real property management M. Subrecipient monitoring
 C. Cash management G. Matching, level of effort, earmarking N. Special tests and provisions
 D. Davis - Bacon Act H. Period of availability of Federal funds O. None
 5 N/A for NONE K. Real property acquisition and relocation assistance P. Other
 I. Procurement and suspension and debarment J. Program income

