OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE ISABELA
AUDITORIA 2005-2006

30 DE JUNIO DE 2006

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

FISCAL YEAR ENDED JUNE 30, 2006

Hon. Carlos Delgado Altieri
Mayor

Jason Darius León, CPA
Finance Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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ORTIZ, RODRIGUEZ, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of Isabela
Isabela, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Isabela, as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 Isabela as of June 30, 2006 for the fiscal 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 11, 2006, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 and Budgetary Comparison Schedule - General Fund on page 52 was 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying combining financial statements of the general fund and the schedule of expenditures of federal awards are 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 are also not a required part of the basic financial statements of the Municipality. The combining financial statements of the general fund and 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.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 11, 2006

The stamp 2190967 was affixed to the original of this report.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2006

The following discussion will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2006 through an analysis of the financial performance of the Municipality of Isabela. 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 $40,890,206 (net assets).
- Revenues (not including special items) decreased by 10% and expenses increased 1% in comparison with year 2005.
- Net change in net assets amounted to $3,449,647, a decrease of 45% with respect to prior year's net change.

Highlights for Fund Financial Statements

Detailed information about the Municipality's most significant funds is found in the funds financial statements, which use the current financial resources measurement focus and modified accrual basis of accounting:

- At June 30, 2006, a net change of $(416,456) in the fund balances of the Municipality's governmental funds resulted in combined ending fund balances of $14,473,467. Approximately 49% of the total combined fund balances is unreserved.
- The General Fund (including certain special funds included within the general fund) reported a deficit of revenues and other financing sources under expenditures and other financing uses of $(101,604) and an unreserved fund balance of $7,113,803. Unreserved fund balance increased 11% from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2006 was $33,987,211 (net of depreciation).
- Long term debt increased to $13,483,403.
- On a budgetary basis, actual revenues exceeded actual expenditures by $288,750.

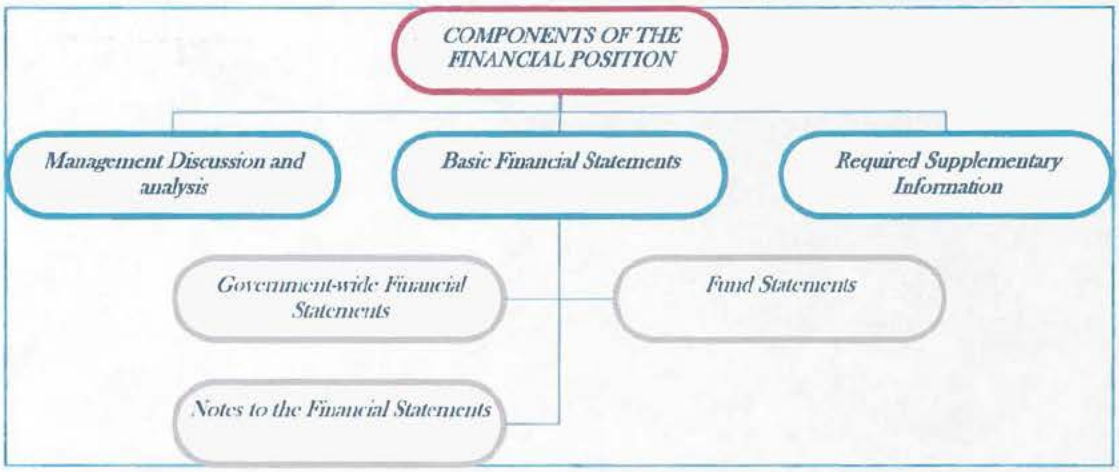
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2006

OVERVIEW 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 capital assets 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 works and sanitation; public safety, culture and recreation, housing, 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.

- ***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***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2006

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, 2006 and 2005:

TABLE 1

Summary Statement of Net Assets As of June 30,	Governmental Activities	
	2006	**2005, as restated**
Assets		
Current and other assets	$ 25,114,594	$ 23,507,927
Capital assets	33,987,211	31,090,355
Total assets	$ 59,101,805	$ 54,598,282
Liabilities		
Current and other liabilities	$ 4,728,196	$ 3,685,748
Long term liabilities	13,483,403	13,471,975
Total liabilities	18,211,599	17,157,723
Net assets		
Invested in capital assets, net of related debt	33,327,211	30,140,093
Restricted	11,106,927	12,099,717
Unrestricted (deficit)	(3,543,932)	(4,799,251)
Total net assets	$ 40,890,206	$ 37,440,559

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 9% with respect to prior year.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt 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 constrains established by debt covenants, enabling legislation or other legal requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2006

As of June 30 2006, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long term obligations such as compensated absences and debts to CRIM 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. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt section of net assets. Therefore, are reported as part of the unrestricted net assets section.

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2006 and 2005:

TABLE 2

Summary of Changes in Net Assets As of June 30,		
	Governmental Activities	
	2006	**2005, as restated**
Program revenues:		
Fees, fines and charges for services	$ 5,248,388	$ 5,810,259
Operating grants and contributions	2,202,249	2,938,992
Capital grants and contributions	3,308,782	5,129,767
General revenues:		
Property taxes	4,772,730	4,262,939
Municipal license taxes	2,228,950	2,227,142
Grants and contributions not restricted to specific programs	4,721,436	4,225,500
Interest	339,055	251,916
Other	380,785	986,821
Total revenues	23,202,375	25,833,336
Expenses:		
General government	7,767,919	7,487,791
Public works and sanitation	3,409,113	3,785,474
Public safety	1,101,703	1,087,598
Culture and recreation	710,027	837,095
Health	2,888,316	2,996,978
Housing, welfare and community development	2,628,639	2,174,509
Education	959,092	901,278
Interest on long term debt	287,919	292,844
Total expenses	19,752,728	19,563,567
Special items	-	1,909
Change in net assets	3,449,647	6,271,678
Net assets-beginning of year, as restated	37,440,559	31,168,881
Net assets-end of year	$ 40,890,206	$ 37,440,559

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2006

FIGURE 1

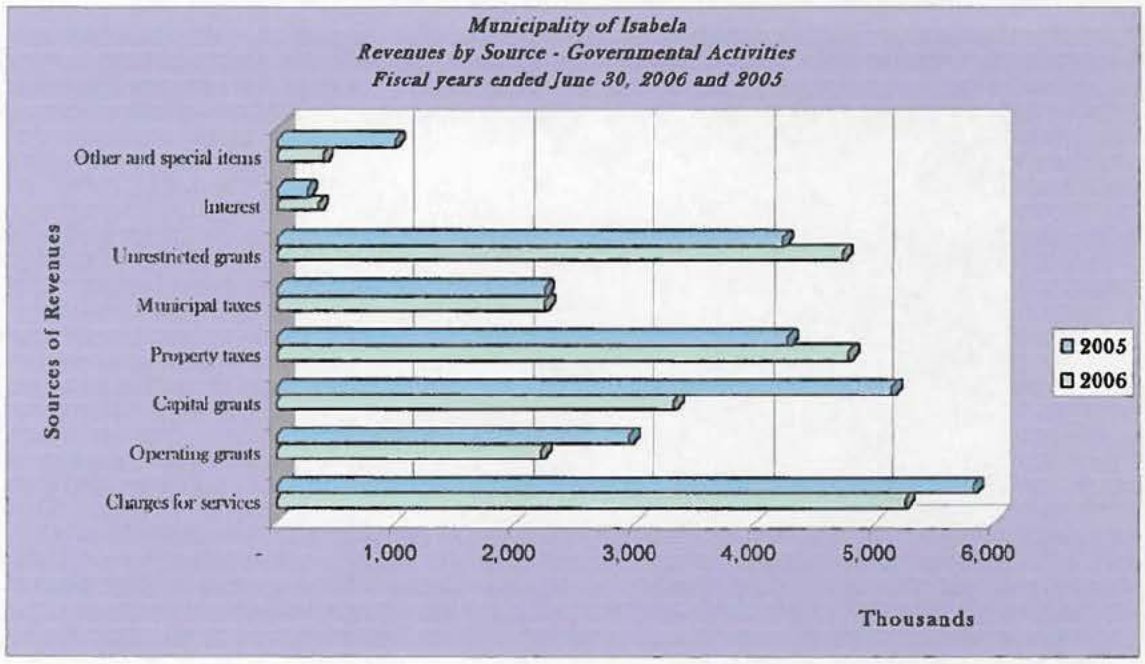
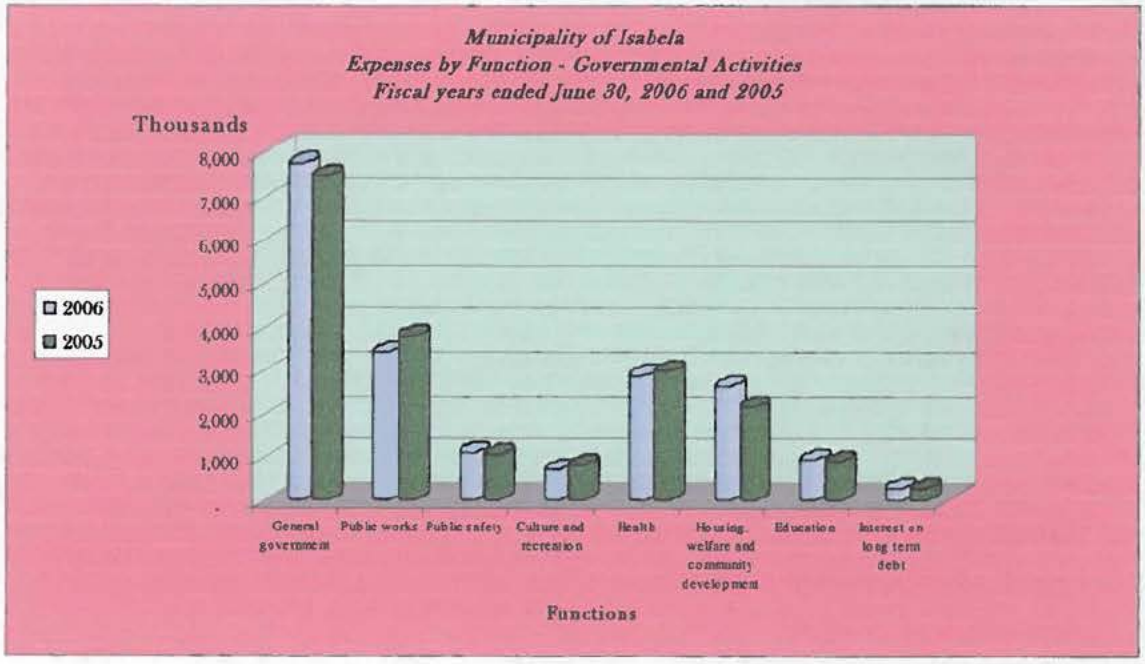


FIGURE 2



Approximately 23% of the Municipality's revenues came from fees and charges for services, 21% from property taxes and 20% from unrestricted grants. The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 39%, public works and sanitation with 17% and health with 15%. Program revenues of the Municipality covered 54% of total expenses.

With respect to prior year, revenues reported a net decrease of approximately 10%. This net decrease is primarily the result of: (1) a 35 % decrease in capital grants revenues due to a significant decrease of 70 % in the grants received from the Commonwealth Legislature for the future acquisition and construction of capital assets; (2) a 25 % decrease in operating grants mainly due to (a) 27 % decrease in grants received for housing, welfare and community development, including Temporary Assistance for Needy Families and Child Care and Development Block Grant, and (b) a 44% decrease in educational grants due to a significant decrease in the funds received from the Head Start Program; (3) 10% decrease in fees and charges for services due to a 40% decrease in construction permits revenue; (4) a 12 % increase in unrestricted grants and contributions due to a 12% increase in the municipal subsidies and equalization fund sent by CRIM; (5) a 12 % increase in property taxes; and (6) a 61 % decrease in other revenues due to the absence in this year's financial statements of capital asset improvements transferred to the Municipality by the PR Department of Transportation and Public Works.

Expenses increased 1% in comparison with 2005 year. Significant decreases were registered on culture and recreation with 15% and public works and sanitation with 10%, which were offset by an increase of 21% on housing, welfare and community development.

As noted previously the significant decrease in revenues caused a decrease of 45% in the net change in net assets with respect to prior year net change.

The following table focuses on the cost of each of the Municipality's largest programs as well as each 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,

	Total Cost of Services		Net Cost of Services	
Functions/Programs	**2006**	**2005**	**2006**	**2005**
General government	$ 7,767,919	$ 7,487,791	$ 4,008,337	$ 3,852,849
Public works and sanitation	3,409,113	3,785,474	699,864	(965,529)
Public safety	1,101,703	1,087,598	938,878	1,050,950
Health	2,888,316	2,996,978	550,292	317,226
Housing, welfare and community development	2,628,639	2,174,509	1,666,129	875,642
Education	959,092	901,278	131,863	(576,528)
Other	997,946	1,129,939	997,946	1,129,939
	$ 19,752,728	$ 19,563,567	$ 8,993,309	$ 5,684,549

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2006

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($5,248,388) and other governments and organizations that subsidized certain programs with grants and contributions ($5,511,031). The $8,993,309 net cost of services was fully covered by other general revenues including property and municipal license taxes.

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, 2006, the governmental funds reported combined ending fund balances of $14,473,467, a net decrease of $416,456 in comparison with the prior year. This decrease was caused primarily by a net change in the general fund of ($101,604); ($307,871) in Community Development Block Grant; $594,475 in the debt service fund; and ($601,456) in the other governmental funds. Of total combined fund balances, $7,113,803 (49%) constitutes unreserved fund balance. 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. For the year ended June 30, 2006, the fund balance of the general fund decreased by $101,604 when compared with the prior year. Of this net change, ($581,887) pertains to other special funds included as part of the general fund. The principal components of the net decrease of $2,727,239 in revenues are a decrease of $225,742 in property taxes; a decrease of $1,061,076 in fees, fines and charges for services, and $1,520,165 in intergovernmental subsidies. The net decrease in expenditures of $1,269,004 is due to a decrease of $475,299 in public works and sanitation expenditures; $346,922 in the general government expenditures; and $315,325 in housing, welfare and community development.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2005-2006 presented an increase of 6% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by $1,051,134 due to additional collections of municipal license tax, charges for services and interest revenue. Budget expenditures were decreased by $555,298. Actual revenues exceeded the revised budgeted revenues by $309,602 (net). The most significant variances were in property taxes, $134,378; intergovernmental subsidies, $121,050; and fees, fines and charges for services, $102,328.

A negative variance of ($21,432) between revised budget and actual expenditures was due mainly to a net increase of $62,286 in general government and a net decrease of $17,845 in public works and sanitation expenditures. The Municipality reported more expenditure (net) than appropriations in those functions on payments for utilities. Actual revenues exceeded actual expenditures by $288,750.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested $33,987,211 (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 approximately 9% over the prior year.

TABLE 4

Capital Assets, net As of June 30,	Governmental Activities	
	2006	**2005, as restated**
Non-depreciable assets:		
Land	$ 4,055,589	$ 3,685,589
Construction in progress	5,051,706	3,117,144
Depreciable assets:		
Leasehold improvements	459,303	505,233
Buildings and buildings improvements	11,092,067	10,747,310
Infrastructure	8,926,448	8,689,107
Vehicles, machinery and equipment	4,402,098	4,345,972
Total	$ 33,987,211	$ 31,090,355

The Municipality's major capital projects that were still in construction as of June 30, 2006 are as follows:

- Construction of "Picadero Municipal" - $2,610,340
- Improvements to the Downtown Electrical Infrastructure - $1,429,746
- Construction of Youth Sport and Educational Center - $310,000
- Construction of "Parque Urbano" - $230,500
- Construction of "Paseo Lineal" - $129,700
- Renovation of Home Care for the Elderly Center-"Trinitaria" Street - $116,403
- Construction "Costa Brava" Basketball Court - $82,975

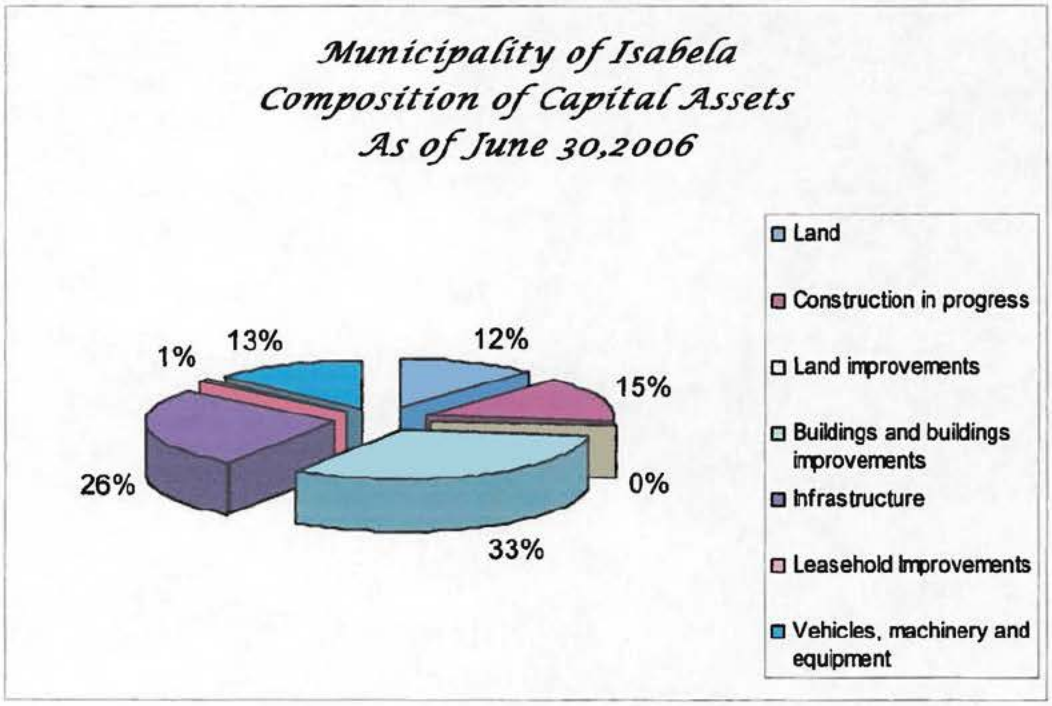
Construction in progress increased significantly due to the "Picadero Municipal" additions of $1,744,015.

The Municipality reported approximately $442,481 in infrastructure additions during the year, which are composed mainly of capital improvements.

The Municipality acquired a total of $482,392 of equipment during the fiscal year 2005-2006, including three compactor trucks for a total amount of $251,885.

The Municipality's fiscal year 2006-2007 consolidated capital budget calls for a significant amount of new and continuous projects including construction of "Picadero Municipal", renovation of the City Hall, construction of a new Home Care for the Elderly Center in the old W. Harding School, renovation of the Home Care for the Elderly Center located in the Trinitaria Street, construction of a new Youth Sport and Educational Center and capital improvements to municipal streets and roads. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds.

Capital assets composition as of June 30, 2006 follows:



More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

Long term debt

At year-end, the Municipality had $5,416,024 in general and special bonds and notes, a decrease of 13% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2006 and 2005:

TABLE 5

Outstanding Long-term Debt As of June 30,	Governmental Activities	
	2006	2005, as restated
General and special obligation bonds and notes	$ 5,416,024	$ 6,217,024
Note payable to CRIM – LIMS	322,594	370,869
Note Payable to CRIM – prior years delinquent accounts	131,846	152,324
Note payable to Puerto Rico Department of Labor	214,078	306,142
Note payable to PR Aqueduct and Sewer Authority (PRASA)	-	17,260
Note payable to Puerto Rico Solid Waste Authority	221,366	252,868
Note payable to Puerto Rico Treasury Department	728,622	-
Landfill obligation	4,138,125	3,920,497
Compensated absences	1,910,622	1,771,331
Christmas Bonus	355,630	366,375
Claims and judgments	10,883	63,672
Payable to CRIM – property tax advances	33,613	33,613
Total	$ 13,483,403	$ 13,471,975

The decrease in the general and special obligation bonds and notes is the effect of the payments of maturities of general obligation bonds made during the year. The increase in the notes payable with Puerto Rico Department of Treasury is the result of new debt agreements formalized during the year. More detailed information about the Municipality's long term liabilities is presented in Note H to the financial statements.

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 14.6%, which compares with the Commonwealth rate of 10.9%. Another important factor that may affect the 2006-2007 budget is the implementation of a Municipal sales tax effective November 15, 2006, which should provide additional unrestricted funds to finance Municipal operations.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2006-2007 are $14,217,568, an increase of approximately 19% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. In addition to the estimated budget for the general fund, the Municipality has submitted Federal and Commonwealth funds proposals for welfare and community development as well as for capital improvements and public works funds.

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 Director of Finance at PO Box 507, Isabela, Puerto Rico 00602.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

STATEMENT OF NET ASSETS
JUNE 30, 2006

		Governmental Activities
ASSETS		
Cash and investments	$	10,089,850
Receivables, net (note C)		530,264
Due from (note D):		
Commonwealth Government		2,286,104
Federal Government		4,181,418
Restricted assets:		
Cash		5,736,660
Cash with fiscal agents		1,998,336
Deferred charges		22,443
Inventories and Supplies		269,520
Capital Assets (note F):		
Land and construction in progress		9,107,295
Other capital assets, net		24,879,916
		33,987,211
Total assets	$	59,101,805
LIABILITIES		
Accounts payable and accrued liabilities	$	2,351,234
Interest payable		147,470
Due to (note D):		
Commonwealth Government		331,124
Federal Government		3,419
Deferred revenues:		
Municipal license taxes (note K)		1,793,078
Other		101,871
Long term liabilities (note H):		
Due within one year		1,367,600
Due in more than one year		12,115,803
		18,211,599
NET ASSETS		
Invested in capital assets, net of related debt		33,327,211
Restricted for:		
Capital projects		8,412,077
Debt service		2,197,378
Other specified purposes		497,472
Unrestricted (deficit)		(3,543,932)
Total net assets	$	40,890,206

The accompanying notes are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006

Functions	Expenses	Program Revenues: Fees, Fines and Charges for services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Total
Governmental Activities:					
General government	$ 7,767,919	$ 2,909,830	$ 567,366	$ 282,386	$ (4,008,337)
Public works and sanitation	3,409,113	534	7,049	2,701,666	(699,864)
Public safety	1,101,703	-	162,825	-	(938,878)
Culture and recreation	710,027	-	-	-	(710,027)
Health	2,888,316	2,338,024	-	-	(550,292)
Housing, welfare and community development	2,628,639	-	637,780	324,730	(1,666,129)
Education	959,092	-	827,229	-	(131,863)
Interest on long term debt	287,919	-	-	-	(287,919)
Total	$ 19,752,728	$ 5,248,388	$ 2,202,249	$ 3,308,782	(8,993,309)

General revenues	
Taxes	
Property taxes	4,772,730
Municipal license taxes	2,228,950
Grants and contributions not restricted to specific programs	4,721,436
Interest	339,055
Other	380,785
Total general revenues	12,442,956
Change in net assets	3,449,647
Net assets-beginning, as restated (note R)	37,440,559
Net assets-ending	$ 40,890,206

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

Assets	General	Community Development Block Grant	Head Start	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and investments	$ 10,089,850	$ -	$ -	$ -	$ -	$ 10,089,850
Receivables, net (note C)	530,263	-	-	-	-	530,263
Due from (note D)						
Commonwealth Government	1,941,191	-	-	344,913	-	2,286,104
Federal Government	-	3,649,428	166,107	-	365,883	4,181,418
Due from other funds (note E)	930,794	-	-			930,794
Inventories and Supplies	269,520	-	-	-	-	269,520
Restricted assets						
Cash	4,488,685	5,956	8,358	-	1,233,662	5,736,661
Cash with fiscal agents	-	-	-	1,998,336	-	1,998,336
Total assets	$ 18,250,303	$ 3,655,384	$ 174,465	$ 2,343,249	$ 1,599,545	$ 26,022,946
Liabilities and Fund Balance						
Liabilities						
Accounts payable and accrued liabilities	$ 1,286,768	$ 674,958	$ 73,584	$ -	$ 315,926	$ 2,351,236
Matured bonds and interest payable	-	-	-	633,748	-	633,748
Due to (note D).						
Commonwealth Government	351,124	-	-	-	-	351,124
Federal Government	-	-	-	-	3,422	3,422
Other funds	-	126,139	100,881	-	703,774	930,794
Deferred revenues (notes G and K)						
Municipal license taxes	1,793,078	-	-	-	-	1,793,078
Commonwealth Government	1,580,326	-	-	283,798	-	1,864,124
Federal grants	-	3,231,294	-	-	105,542	3,336,836
Other	285,117	-	-	-	-	285,117
Total liabilities	5,296,413	4,032,391	174,465	917,546	1,128,664	11,549,479
Fund balance						
Reserved for						
Inventories	269,520	-	-	-	-	269,520
Encumbrances	390,869	-	-	-	-	390,869
Debt service	-	-	-	1,425,703	-	1,425,703
Capital projects	4,900,027	(377,007)	-	-	358,625	4,881,645
Other specific purposes	279,671	-	-	-	112,256	391,927
Unreserved						
Designated for future expenditures	3,030,441	-	-	-	-	3,030,441
Undesignated	4,083,362	-	-	-	-	4,083,362
Total fund balance	12,953,890	(377,007)	-	1,425,703	470,881	14,473,467
Total liabilities and fund balance	$ 18,250,303	$ 3,655,384	$ 174,465	$ 2,343,249	$ 1,599,545	$ 26,022,946

The accompanying notes are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances:			**$**	**14,473,467**
Amounts reported for governmental activities in the Statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:				33,987,211
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:				
Deferred charges:				22,443
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:				
Property taxes-General Fund	$	283,571		
PR Department of Labor (Law No. 52 and 82)		198,783		
Property taxes-Debt Service Fund		283,798		
Christmas Bonus Reimbursement		165,179		
Grant from PR Department of Recreation and Sports		66,500		
Grant from PR Solid Waste Authority		350,000		
Commonwealth Legislature Resolutions		278,211		
Grant from PR Department of Transportation		209,443		
Charges for services		188,625		
Interest		23,261		
Federal Grant-HOME		38,856		
Federal Grant-FEMA		29,250		
Federal Grant-Child Care		37,439		
Federal Grant-CDBG		3,231,294		5,384,210
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:				(18,722)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:				
General obligation bonds and notes		4,911,024		
Note payable to to CRIM-LIMS		322,594		
Note payable to to CRIM-financing of delinquent accounts		131,846		
Note payable to PR Department of Labor		214,078		
Note payable to PR Solid Waste Authority		201,366		
Note payable to PR Treasury Department		728,622		
Compensated absences		1,910,622		
Christmas Bonus		355,630		
Judgment and claims		10,883		
Estimated solid waste landifill closure and post-closure costs		4,138,125		
Payable to CRIM-excess of property tax advances		33,613		(12,958,403)
Net assets of governmental activities:			**$**	**40,890,206**

The accompanying notes are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2006

	General	Community Development Block Grant	Head Start	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Property taxes (note J)	$ 2,980,949	$ -	$ -	$ 1,340,275	$ -	$ 4,321,224
Municipal license taxes (note K)	2,228,950	-	-	-	-	2,228,950
Intergovernmental:						
Commonwealth government (note L)	7,254,010	-	-	-	257,639	7,511,649
Federal government	-	1,533,538	827,229	-	1,237,125	3,597,892
Fees, fines and charges for services	3,869,945	-	-	-	-	3,869,945
Interest	270,328	-	-	48,139	-	318,467
Other	63,460	-	-	-	8,591	72,051
Total revenues	16,667,642	1,533,538	827,229	1,388,414	1,503,355	21,920,178
Expenditures:						
Current:						
General government	6,534,513	306,732	-	-	65,799	6,967,044
Public works and sanitation	2,432,072	32,448	-	-	196,739	2,761,259
Public safety	945,171	-	-	-	89,489	1,034,660
Culture and recreation	464,251	-	-	-	29,689	493,940
Health	2,878,419	-	-	-	-	2,878,419
Housing, welfare and community development	1,046,719	364,827	-	-	1,193,916	2,605,462
Education	-	-	765,711	-	123,911	889,622
Capital outlays	2,076,943	1,087,402	61,518	-	569,184	3,795,047
Debt service:	-					
Principal	-	-	-	536,000	-	536,000
Interest	-	-	-	278,319	-	278,319
Bond issuance costs	483	-	-	-	-	483
Total expenditures	16,458,571	1,841,409	827,229	814,319	2,268,727	22,240,255
Excess (deficiency) of revenues over (under) expenditures before other sources (uses)	179,071	(307,871)	-	574,095	(765,372)	(320,077)
Other financing sources (uses):						
Payment of lawsuit settlement	(825,000)	-				(825,000)
Proceeds-Note Payable PR Treasury Department	825,000	-	-	-	-	825,000
Discount-Note Payable PR Treasury Department	(96,378)	-				(96,378)
Transfers in	35,747		-	59,128	163,916	261,791
Transfers out	(223,044)	-	-	(38,748)	-	(261,792)
Total other financing sources (uses)	(280,675)	-	-	20,380	163,916	(96,379)
Excess (deficiency) of revenues over (under) expenditures	(101,604)	(307,871)	-	594,475	(601,456)	(416,456)
Net change in fund balance	(101,604)	(307,871)	-	594,475	(601,456)	(416,456)
Fund balance (deficit) at beginning of year, as restated (note R)	13,055,496	(69,136)	-	831,228	1,072,337	14,889,923
Fund balance (deficit) at end of year	$ 12,953,892	$ (377,007)	$ -	$ 1,425,703	$ 470,881	$ 14,473,467

The accompanying notes are an integral part of this statement

830,019

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances-total governmental funds:		**$ (416,456)**
Amounts reported for governmental activities in the Statement of activities are different because:		
Governmental funds reports capital assets 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.		
Expenditures for capital assets:	$ 3,795,047	
Less: current year depreciation:	(867,774)	2,927,273
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:		(31,916)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Property taxes-General Fund (current year)	$ 283,571	
PR Department of Labor (Law No. 52 and 82)	198,783	
Property taxes-Debt Service Fund (current year)	283,798	
Christmas Bonus Reimbursement (current year)	165,179	
Commonwealth Legislature Resolutions	241,880	
Grant from PR Department of Transportation	61,810	
Federal Grant-FEMA	29,250	
Federal Grant-HOME	38,856	
Federal Grant-Child Care	37,439	
Federal Grant-CDBG (net change)	(38,510)	
Charges for services	188,625	
Interest	23,261	
Donated capital assets	1,500	
Other	52,788	1,568,230
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Due from Commonwealth entities:		
Property taxes-Debt Service Fund (prior year)	(115,863)	
Christmas Bonus Reimbursement (prior year)	(170,170)	(286,033)
Net proceeds from notes payable to the PR Treasury Department are an other financing source in the governmental funds, but an increase of long term liabilities in the Statement of Net Assets:		(728,622)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments-Debt Service Fund (net change)	(265,000)	
Matured debts-General Fund	20,000	(245,000)
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	801,000	
Other long term liabilities	575,954	1,376,954
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	483	
Amortization of bond issuance costs	(3,653)	(3,170)
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 the governmental funds:		
Compensated absences	(139,291)	
Municipal solid waste landfill	(217,628)	
Christmas bonus	(355,630)	
Accrued interest (net change)	936	(711,613)
Change in net assets of governmental activities:		**$ 3,449,647**

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Isabela was founded in 1819. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. ***Financial reporting entity***

The financial reporting entity included in this report consists of the financial statements of the Municipality of Isabela (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

a. Fiscal dependency of the potential component unit on the primary government, or
b. The primary government appoints a voting majority of the potential component unit's governing body and,

1) The primary government can impose its will on the potential component unit and/or,

2) A financial benefit/ burden exist between the primary government and the potential component unit.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity 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.
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.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. ***Basis of presentation, measurement focus and basis of accounting***

The financial report of the Municipality consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions end events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures (for Community Development Block Grant Program Fund) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Head Start Program Fund and Debt Service Fund).

The Municipality reports the following major governmental funds:

General Fund: This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

Community Development Block Grant Program Fund (CDBG): CDBG fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Head Start Program Fund: Head Start is used to account for revenues sources for the related activities that promote school readiness by enhancing the social and cognitive development of low–income children, including children of federally recognized reservations and children of migratory farm workers, through the provisions of comprehensive health, educational, nutritional, social and other services; and to involve parents in their children's learning and to help parents make progress toward their educational, literacy and employment goals. The program also emphasizes the significant involvement of parents in the administration of their local Head Start programs.

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied, municipal license taxes, recognized when the underlying exchange has occurred and time requirements are met and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (In case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: 1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) 2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

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

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. ***Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents***

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the general and other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. ***Receivables and due from governmental entities***

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

5. ***Interfund 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 from/to 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 from/to other funds".

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. ***Inventories***

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant. Only inventory of medicines and medical supplies of the Municipality's Advanced Medical Center ("CIMA") in the amount of $269,520 are included in the financial statements.

7. ***Capital assets***

Capital assets of the primary government, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Municipality maintains a threshold level of $500 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land are depreciated using the straight-line method over the following useful lives:

Description	Years
Land improvements	50
Buildings and building improvements	50
Leasehold improvements	Lease term
Infrastructure	10-50
Vehicles, machinery and equipment	5-10

8. ***Long-term obligations***

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

9. ***Deferred bond issuance costs***

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. ***Compensated absences***

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1)are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

11. ***Fund balances and Net Assets***

a. Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Inventories	Represent the valuation amount assigned for the restriction and use of resources accounted in inventory on hand.
Debt Service:	Represents net assets available to finance future debt service payments.
Capital Projects:	Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other specified purposes:	Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments

b. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt:	Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
Restricted net assets:	Represents net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

12. ***Interfund transactions***

The Municipality reports certain transactions as operating transfers, which are legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

13. ***Risk financing***

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Isabela consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

14. ***Use of estimates***

The preparation of the basic financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

15. ***Future adoption of accounting pronouncements***

The GASB has issued the following statements, which the Municipality has not yet adopted:

	Statement	To be Adopted in Fiscal year ended,
43	Financial Reporting for Post employment Benefits Plans Other Than Pension Plans	June 30, 2008
45	Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
48	Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues	June 30, 2008

The impact of these statements in the Municipality's basic financial statements has not yet been determined.

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

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NOTE B – CUSTODIAL CREDIT RISK – DEPOSITS - Continued

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to $15,741,289.

Deposits in governmental banks, all of which are uninsured and uncollateralized, are exposed to custodial credit risk. At year end the Municipality's bank balance in governmental banks amounts to $1,998,336.

NOTE C – RECEIVABLES

Accounts receivable as of June 30, 2006 follows:

	Amount
Construction permits levy – Villa Pesquera Apartments	$ 101,870
P. R. Department of Treasury	107,660
Healthcare providers billings	232,897
Interest	87,837
	$ 530,264

Amounts receivable from construction permits levy-Villa Pesquera Apartments ($101,870), healthcare providers billings ($162,320), and interest ($20,927) are recorded as deferred revenue in the governmental funds statements since they are not available as required by current standards.

NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2006 follows:

	Commonwealth Government	Federal Government
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	$ 344,913	$ -
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	283,571	-
P.R. Department of Education	35,000	-
P.R. Department of Recreation and Sports	66,500	-
P.R. Department of Treasury – Christmas bonus reimbursement	165,179	-
P.R. Solid Waste Authority	350,000	-
P.R. Department of Health	171,840	-
P.R. Department of Transportation	209,443	-

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NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued

	Commonwealth Government	Federal Government
P.R. Department of Labor	323,782	-
Office of Commissioner of Municipal Affairs – Commonwealth Legislature Resolutions	335,876	-
Office of Commissioner of Municipal Affairs – CDBG	-	1,726,194
U.S. Department of Housing and Urban Development – CDBG	-	1,923,234
U.S. Department of Health and Human Services - Head Start		166,107
P.R. Department of Family – Child Care	-	64,382
P.R. Department of Family – Temporary Assistance for Needy Families (TANF)	-	33,593
P.R. Emergency Management Agency - Pre-Disaster Mitigation	-	29,250
P.R. Department of Housing - Home Investment Partnership Program (HOME)	-	230,367
Others	-	8,291
	$ 2,286,104	$ 4,181,418

See note G for detail of amounts due from Governmental Entities recorded as deferred revenue.

2. Amounts due to governmental entities as of June 30, 2006 follows:

	Commonwealth Government	Federal Government
P.R. Aqueduct and Sewer Authority (PRASA)	$ 10,500	$ -
P.R. Retirement Plan Administration	50,308	
P.R. Department of Treasury	163,458	-
P.R. Department of Labor	10,676	-
P.R. General Services Administration	40,397	-
P.R. Workmen's Insurance Corporation	55,785	-
P.R. Solid Waste Authority	20,000	-
Rural Development	-	3,422
	$ 351,124	$ 3,422

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NOTE E - INTERFUND TRANSACTIONS

1. ***Due from/to other funds:***

Amounts due from/to other funds represent advances to other funds by the general fund for payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major fund-CDBG	$ 126,139
General Fund	Major fund – Head Start	100,881
General Fund	Other governmental funds-Section 8	118,328
General Fund	Other governmental funds-Child Care	232,921
General Fund	Other governmental funds-Temporary Assistance for Needy Families	175,712
General Fund	Other governmental funds-Home Investment Partnership Program	10,417
General Fund	Other governmental funds-State and Community Highway Safety	132,102
General Fund	Other governmental funds-Child and Adult Care Food Program	5,044
General Fund	Other governmental funds-Pre-Disaster Mitigation	29,250
Total:		$ 930,794

2. ***Operating transfers:***

Transfers between individual funds were made for operational purposes. Transfers includes interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund; principal and interest payments of general long term debt transferred from the general fund to the debt service fund: and for reimbursements of operational expenditures of special and general funds.

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NOTE F - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2006 is as follows:

	Balance July 1, 2005, as restated	Increases	Decreases	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 3,685,589	$ 370,000	$ -	$ 4,055,589
Construction in progress	3,117,144	2,341,713	407,151	5,051,706
Total capital assets not being depreciated:	6,802,733	2,711,713	407,151	9,107,295
Capital assets, being depreciated:				
Buildings and building improvements	12,024,860	567,111	-	12,591,971
Leasehold improvements	505,233	-	-	505,233
Infrastructure	10,089,821	442,481	24,958	10,507,344
Vehicles, machinery and equipment	6,471,972	482,392	23,427	6,930,937
Total capital assets being depreciated	29,091,886	1,491,984	48,385	30,535,485
Less accumulated depreciation for:				
Buildings and building improvements	1,277,550	222,354	-	1,499,904
Leasehold improvements	-	45,930	-	45,930
Infrastructure	1,400,714	184,637	4,455	1,580,896
Vehicles, machinery and equipment	2,126,000	414,853	12,014	2,528,839
Total accumulated depreciation	4,804,264	867,774	16,469	5,655,569
Total capital assets being depreciated, net	24,287,622	624,210	31,916	24,879,916
Governmental activities capital assets, net	$ 31,090,355	$ 3,335,923	$ 439,067	$ 33,987,211

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	$ 51,874
Public works and sanitation	421,420
Public safety	67,043
Culture and recreation	216,086
Health	27,341
Welfare and community development	14,540
Education	69,470
Total depreciation expense, governmental activities	$ 867,774

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NOTE G - DEFERRED REVENUES

Deferred revenues for Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources are received before allowable expenditures are incurred or not available as required by current standards. A detail of these balances follows:

	Commonwealth Government	Federal Grants	Other
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	$ 283,571	$ -	$ -
P.R. Department of Treasury – Christmas bonus reimbursement	165,179	-	-
P.R. Solid Waste Authority	350,000	-	-
P.R. Department of Recreation and Sports	66,500	-	-
P.R. Department of Labor	198,783		-
P.R. Department of Health	28,640	-	-
P.R. Department of Transportation	209,443	-	-
Office of Commissioner of Municipal Affairs –Commonwealth Legislature Resolutions	278,210	-	-
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	283,798	-	-
Office of Commissioner of Municipal Affairs –CDBG	-	1,585,710	-
U.S. Department of Housing and Urban Development – CDBG	-	1,645,584	-
P.R. Department of Family – Child Care	-	37,439	-
P.R. Emergency Management Agency-Pre-Disaster Mitigation	-	29,250	-
P.R. Department of Housing Home Investment Partnership Program (HOME)	-	38,853	-
Construction permits levy – Villa Pesquera Apartments	-	-	101,870
Healthcare providers billings	-	-	162,320
Interest	-	-	20,927
	$ 1,864,124	$ 3,336,836	$ 285,117

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NOTE H - LONG TERM DEBT

1. *Summary of long- term debt activity*

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2006:

	Balance at June 30, 2005	Increases	Decreases	Balance at June 30, 2006	Due within one year
General, Special Obligations Bonds and Notes	$ 6,217,024	$ -	$ 801,000	$ 5,416,024	$ 537,000
Note payable to CRIM-LIMS	370,869	-	48,275	322,594	51,190
Note payable to CRIM - Financing of delinquent accounts	152,324	-	20,478	131,846	-
Note payable to PR Department of Labor	306,142	-	92,064	214,078	72,933
Note payable to PR Aqueduct and Sewer Authority (PRASA)	17,260	-	17,260	-	-
Note payable to PR Solid Waste Authority	252,868	-	31,502	221,366	33,842
Note Payable-P.R. Treasury Department	-	728,622	-	728,622	131,557
Landfill Obligation	3,920,497	217,628	-	4,138,125	-
Compensated absences	1,771,331	315,562	176,271	1,910,622	140,952
Christmas bonus	366,375	355,630	366,375	355,630	355,630
Claims and judgments	63,672	-	52,789	10,883	10,883
Payable to CRIM-excess of property tax advances over actual collections	33,613	-	-	33,613	33,613
	$ 13,471,975	$ 1,617,442	$ 1,606,014	$ 13,483,403	$ 1,367,600

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NOTE H - LONG TERM DEBT - Continued

2. *General and special obligation bonds and notes*

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2006 amount to $5,416,024. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2006 follows:

	Outstanding Amount
1996 general obligation bonds of $525,000 due in annual installments ranging from $13,000 to $36,000 through January 1, 2021; bearing interest at 4.50%	$ 399,000
1999 general obligation bonds of $410,000 due in annual installments ranging from $11,000 to $29,000 through January 1, 2024; bearing interest at 4.50%	362,024
2000 general obligation bonds of $305,000 due in annual installments ranging from $20,000 to $40,000 through January 1, 2005; bearing interest at rates ranging from 2.70% to 7.81% (3.21% at June 30, 2006)	180,000
2001 general obligation notes of $985,000 due in annual installments ranging from $170,000 to $230,000 through July 1, 2006; bearing interest at rates ranging from 2.70% to 5% (3.21% at June 30, 2006)	230,000
2001 general obligation bonds of $3,455,000 due in annual installments ranging from $45,000 to $290,000 through July 1, 2026; bearing interest rates ranging from 5.00% to 7.50% (5.08% at June 30, 2006)	3,230,000

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NOTE H - LONG TERM DEBT - Continued

	Outstanding Amount
2005 general obligation bonds of $255,000 due in annual installments ranging from $5,000 to $25,000 through July 1, 2029; bearing interest rates ranging from 4.37% to 5.31% (4.23% at June 30, 2006)	250,000
1993 special obligation note of $505,000 due in annual installments ranging from $20,000 to $65,000 through July 1, 2009; bearing interest at rates ranging from 3.28% to 8.00% (5.33% at June 30, 2006)	205,000
1999 special obligation note of $1,160,000 due in annual installments ranging from $80,000 to 155,000 through July 1, 2009; bearing interest at rates ranging from 5.00% to 7.81% (5.08% at June 30, 2006)	560,000
	$ 5,416,024

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2006 follows:

June 30	Principal	Interest
2007	$ 537,000	300,701
2008	329,000	319,703
2009	351,000	344,517
2010	387,000	272,780
2011	174,000	255,602
2012-2016	827,000	1,124,859
2017-2021	1,139,000	803,573
2022-2026	1,312,024	374,687
2027-2030	360,000	18,029
Totals	$ 5,416,024	$ 3,814,451

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NOTE H - LONG TERM DEBT - Continued

3. ***Other long-term liabilities***

	Outstanding Amount
Note payable to CRIM (LIMS) – On June 27, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of $519,187 for the payment of the Municipality's share of the cost of a management information system **(LIMS)** acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of $34,817, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:	$ 322,594

June 30	Principal	Interest
2007	$ 51,190	$ 18,444
2008	54,281	15,356
2009	57,559	12,075
2010	61,034	8,599
2011	64,719	4,914
2012	33,810	1,006
Totals	$ 322,594	$ 60,394

Note payable to CRIM (Financing of delinquent accounts)– On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of $471,041, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:	$ 131,846

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NOTE H - LONG TERM DEBT – Continued

June 30	Principal	Interest
2007	$ -	$ 8,570
2008	-	8,570
2009	2,267	8,503
2010	2,419	8,351
2011	2,581	8,189
2012-2016	15,740	38,111
2017-2021	21,766	32,085
2022-2026	30,098	23,753
2027-2031	41,621	12,231
2032-2033	15,354	802
Totals	$ 131,846	$ 149,165

Note payable to Puerto Rico Department of Labor - On February 16, 2005, the Municipality entered into a financing agreement with the PR Department of Labor for a total amount of $401,505 for unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the municipality. The agreement is payable in monthly installments of $7,768, including interest of 11.19% and due in February 15, 2009. The note is being paid from unrestricted funds. Debt service requirements in future years are as follows: $ 214,078

June 30	Principal	Interest
2007	$ 72,933	$ 20,288
2008	81,526	11,696
2009	59,619	2,529
Totals	$ 214,078	$ 34,513

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NOTE H - LONG TERM DEBT – Continued

Note payable to Puerto Rico Solid Waste Authority - On September 17, 2004, the Municipality entered into a financing agreement with the PR Solid Waste Authority for a total amount of $307,944 for unpaid operating lease charges related to equipment used in the Municipality's landfill. The agreement is in the form of a non-interest bearing note (imputed interest of 6%) payable in semiannual installments of $20,000, a final payment of $22,944 and due in January 1, 2012. The note balance as of June 30, 2005 is net of an unamortized discount of $30,076 and is being paid from unrestricted funds. Debt service requirements in future years are as follows: $ 221,366

June 30	Principal	Interest
2007	$ 33,842	$ 6,158
2008	34,827	5,173
2009	35,842	4,158
2010	36,886	3,114
2011	37,959	2,040
2012	42,010	935
Totals	$ 221,366	$ 21,578

Note Payable–Puerto Rico Treasury Department- On February 16, 2006 the Municipality settled a legal case for $825,000 and refinanced this debt on a long term basis through a $728,622 non-interest bearing note (imputed interest rate is 5.00%), from the Puerto Rico Department of the Treasury. The note is payable in monthly installments of $13,750 (including interest) through June 30, 2011. The note balance as of June 30, 2006 is net of an unamortized discount of $96,378 and will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows: $ 728,622

June 30	Principal	Interest
2007	$ 131,557	$ 33,443
2008	138,287	26,713
2009	145,362	19,638
2010	152,799	12,201
2011	160,617	4,383
Totals	$ 728,622	$ 96,378

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NOTE H - LONG TERM DEBT – Continued

Landfill obligation - represent the outstanding balance of the estimated liability for landfill closure and post-closure care costs, based on an 87% usage of the landfill. The total estimate for these costs amounts to $4,800,000 as of June 30, 2006.	$	4,138,125
Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.	$	1,910,622
Christmas Bonus - represent the accrued portion corresponding to fiscal year 2005-2006 of the Christmas bonus to be paid in December 2006.	$	355,630
Claims and judgments - represent the final settlement legal cases paid subsequent to June 30, 2006. The awarded amount will be paid with unrestricted funds.	$	10,883
Payable to CRIM - represents the balance owed to CRIM at June 30, 2005 for excess of advances of property tax and other subsidies over final amount of property tax collections for the fiscal years June 30, 2005. This amount will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).	$	33,613

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs.

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NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS – Continued

The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has an outstanding balance of $4,138,125 as of June 30, 2006, which is based on an 87% usage of the landfill. It is estimated that an additional $661,875 will be recognized as closure and post-closure care expenditures between the balance sheet date and the date the landfill is expected to be filled to capacity (December 2008). The estimated total current costs of the landfill closure and post-closure care ($4,800,000) is based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2006. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. As of June 30, 2006, the Municipality has not made contributions to finance closure and post-closure care costs.

NOTE J - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st.

The tax rates in force as of June 30, 2006 are 9.03% for real property (of which 8.83% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 7.03% for personal property (of which 6.83% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 8.00% and 6.00%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6.00% on real property (of which 5.80% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department)and 4.00% on personal property (of which 3.80% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Department of Treasury) represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 2.00% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than $3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with annual net sales of less than $150,000.

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NOTE J - PROPERTY TAXES - Continued

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable from the CRIM of $283,571 resulting from the final settlement for the fiscal year 2005-2006 is recorded as deferred revenue in the fund statements since is not available as required by current standards.

NOTE K – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the fiscal year ended June 30, 2006 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $1,793,078 are recorded as deferred revenues.

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NOTE L - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

		Amount
Amount of municipal subsidies and equalization fund sent by CRIM	$	4,416,274
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)		1,444,264
Commonwealth Joint Resolutions grants		429,163
Reimbursement from Commonwealth Government of Christmas Bonus expenditure		287,725
Reimbursement from Commonwealth Government of Law 52 and Law 82 program expenditures		368,583
Reimbursement from Commonwealth Government of Public Order Code program expenditures		99,913
Citizen Participation program		157,445
Reimbursement from Commonwealth government - other programs expenditures		50,643
	$	7,254,010

NOTE M - RETIREMENT PLAN

1. ***Plan description***

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities and certain public corporations not having their own retirement systems. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

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NOTE M - RETIREMENT PLAN – Continued

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is $10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. ***Funding policy***

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous three fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000
2006	$ 236,085	$ 90,305
2005	$ 243,239	$ 77,808
2004	$ 236,643	$ 55,344

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NOTE N – POSTEMPLOYMENT BENEFITS

Pursuant to Law No. 157 of June 27, 2003, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees. For the fiscal year ended the post employment benefits paid to retired employees under this requirement amounted to $9,926.

NOTE O - COMMITMENTS

1. *Operating leases*

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately $170,050. Management believes that the summary of the future minimum rental commitments under noncancelable equipment leases with terms exceeding one year is not significant.

2. *Construction*

The Municipality has commitments at June 30, 2006 of approximately $ 2,247,078 for construction, improvements or renovation of certain municipal facilities.

NOTE P - CONTINGENCIES

1. *Federal and State grants*

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of one case settled subsequent to June 30, 2006 and not to be covered by insurance, the Municipality accrued $10,883 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

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NOTE Q– NET CHANGE IN FUND BALANCE – GENERAL FUND

The Statement of revenues, expenditures and changes in fund balance reported a net change in fund balance for the general fund in the amount of ($101,604), which is composed of the following:

	Amount
Net change in fund balance, 01 General Fund	$ 480,283
Net change in fund balance, other special funds included as part of the general fund	(581,887)
	$ (101,604)

The composition of the net change in fund balance of the other governmental funds included in the general fund is disclosed as supplementary information following the notes to the financial statements.

NOTE R - FUND BALANCE AND NET ASSETS RESTATEMENTS

1. *Fund balances*

The beginning fund balance of the general fund, the Community Development Block Grant fund, the debt service fund and certain other governmental funds has been restated to recognize corrections of accounting errors. The following schedule reconciles the fund balance at July 1, 2005 as previously reported to the beginning fund balance, as restated:

		Prior period adjustments	
Fund	Balance at beginning of year, as previously reported	Correction of errors	Balance at beginning of year, as Restated
General fund	$ 12,175,475	$ 880,019	$ 13,055,494
Community Development Block Grant	-	(69,136)	(69,136)
Debt service	947,091	(115,863)	831,228
Other governmental funds	998,702	73,635	1,072,337
Total	$ 14,121,268	$ 768,655	$ 14,889,923

2. *Net assets*

Net assets at beginning of year have been adjusted to reflect the following restatements:

	Amount
Net assets at beginning of year as previously reported:	$ 36,184,678
Restatements:	
Overstatement of accounts payable - general fund	345,971
Understatement of revenues – Commonwealth Legislature Resolutions fund	702,986
Overstatement of accounts payable – CIMA fund	89,547
Understatement of cash – general fund	(885)
Net overstatement of Christmas Bonus payable and receivable	140,149
Overstatement of capital assets additions	(21,887)
Net assets at beginning of year as restated:	$ 37,440,559

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NOTE S – FUND BALANCE DEFICITS

Community Development Grant Program fund and certain special funds included as part of the general fund and other governmental funds in the fund statements disclosed fund balance deficits as follows:

Description	Community Development Block Grant Fund	General fund	Other Governmental Funds
CDBG fund	$ 377,007	$ -	$ -
State Funds		209,443	-
Law No. 52 and 82 fund		198,783	-
WIA Fund	-	-	9,788
Pre-Disaster Mitigation fund	-	-	29,250
Child Care fund	-	-	37,440
Food Program fund-Head Start	-	-	7,058
Home Investment Partnership Program fund	-	-	38,853

The deficits results from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE T– SUBSEQUENT EVENTS

1. ***Sales Tax Implementation***

Effective on July 1, 2006 the Municipality imposed a sales tax of 1% to be applicable over all direct sales to consumers, including certain services as approved by the Municipal Legislature. Subsequently on November 15, 2006 this tax was raised to 1.50% as amended by the Municipal Legislature to be in conformity with Commonwealth Government Sales Tax Law (Act No. 117 of July 4, 2006)

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits.

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NOTE T– SUBSEQUENT EVENTS – Continued

2. ***Issuance of general obligation bonds***

On October 27, 2006 the Governmental Development Bank of Puerto Rico (GDB) approved the issuance of $600,000 general obligation bonds to the Municipality to refund the principal balance of the $1,160,000 and $505,000 special obligation notes as of July 1, 2006. Bonds are due in annual installments ranging from $25,000 to $60,000 through July 1, 2021, bearing interest at a variable rate (LIBOR + 1.25%). On November 3, 2006, the GDB approved the issuance of $3,010,000 general obligation bonds for the reconstruction of the Municipality's City Hall. Bonds are due in annual installments ranging from $40,000 to $260,000 through July 1, 2031, bearing interest at a variable rate (LIBOR + 0.32%). These bonds were acquired in a private sale by Banco Santander of Puerto Rico through a bond purchase agreement. Principal and interest payments will be financed through the Municipality's debt service fund.

3. ***Additional funds for capital projects***

Subsequent to June 30, 2006 the Municipality received from the Governmental Development Bank of Puerto Rico $2,000,000 of the $675,000,000 in 2006 Series A Public Improvement Bonds issued by Commonwealth Government. The funds received will be used for the construction of the "Paseo del Parque" project.

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REQUIRED SUPPLEMENTARY INFORMATION

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	$ 4,081,717	$ 4,081,717	$ 4,216,095	$ 134,378
Municipal license taxes	2,000,724	2,210,187	2,236,623	26,436
Intergovernmental	4,961,365	4,771,589	4,892,639	121,050
Fees, fines and charges for services	847,460	1,510,047	1,612,375	102,328
Interest	70,000	282,405	206,609	(75,796)
Other	-	156,455	157,661	1,206
Total revenues	11,961,266	13,012,400	13,322,002	309,602
Expenditures				
General government	5,886,251	6,067,525	6,129,811	(62,286)
Public works and sanitation	2,458,605	2,318,702	2,300,857	17,845
Public safety	1,172,282	943,167	937,981	5,186
Culture and recreation	585,758	472,980	465,203	7,777
Health	758,299	572,626	572,030	596
Housing, welfare and community development	1,044,821	975,718	966,267	9,451
Total expenditures	11,906,016	11,350,718	11,372,149	(21,431)
Excess of revenues over expenditures	55,250	1,661,682	1,949,853	288,171
Other financing sources (uses)				
Transfers out	(55,250)	(1,661,682)	(1,661,102)	(580)
Total other financing sources (uses)	(55,250)	(1,661,682)	(1,661,102)	580
Excess of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	$ 288,751	$ 288,751

The accompanying notes to required supplemental information are an integral part of this schedule.

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COMMONWEALTH OF PUERTO RICO
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

June 30, 2006

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	**$**	**288,751**
Budget to GAAP differences:		
Entity differences:		
Non budgeted funds recorded as revenues for financial reporting purposes:		3,445,043
Non budgeted funds recorded as expenditures for financial reporting:		(5,484,037)
Non budgeted transfers in:		2,062,491
Non budgeted transfers out:		(605,384)
Basis of accounting differences:		
Revenues recorded for financial reporting purposes but not in budgetary basis:		128,186
Expenditures recorded in budgetary basis but not for financial reporting purposes:		196,696
Expenditures recorded for financial reporting purposes but not in budgetary basis:		(157,954)
Revenues recorded in budgetary basis but not for financial reporting purposes:		(167,900)
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary reporting purposes:		249,553
Prior year encumbrances recorded as expenditures for financial reporting purposes:		(57,048)
Net change in fund balance (GAAP basis):	**$**	**(101,603)**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

June 30, 2006

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

COMBINED BALANCE SHEET-
SPECIAL FUNDS IN GENERAL FUND
JUNE 30, 2006

Assets	General Fund (01)	Special Funds Unreserved GF	Special Funds Designated-GF	Special Funds Reserved	Commonwealth Legislature Resolutions	Subtotal	Eliminations		Total General Fund
Cash and investments	$ 5,384,550	$ 1,848,892	$ 2,856,408	$ -	$ -	$ 10,089,850	$ -	$ -	$ 10,089,850
Receivables, net	261,966	235,231	-	895	32,171	530,263	-	-	530,263
Due from:									
Commonwealth Government	900,249	705,066			335,876	1,941,191	-	-	1,941,191
Due from other funds	1,650,657	-	400,000	-	1,407,498	3,458,155	-	2,527,361	930,794
Inventories and Supplies	-	269,520				269,520	-	-	269,520
Restricted assets:									
Cash	-	-	-	675,678	3,813,007	4,488,685		-	4,488,685
Total assets	**$ 8,197,422**	**$ 3,058,709**	**$ 3,256,408**	**$ 676,573**	**$ 5,588,552**	**$ 20,777,664**	**$ -**	**$ 2,527,361**	**$ 18,250,303**
Liabilities and Fund Balance									
Liabilities									
Accounts payable and accrued liabilities	$ 259,484	$ 323,629	$ 75,012	$ -	$ 628,643	1,286,768	$ -	$ -	$ 1,286,768
Due to:									
Commonwealth Government	351,124		-	-	-	351,124	-	-	351,124
Other funds	1,307,498	911,261	158,602	-	150,000	2,527,361	2,527,361	-	-
Deferred revenues:									
Municipal license taxes	1,793,078	-	-	-	-	1,793,078	-	-	1,793,078
Commonwealth Government	865,250	436,866	-	-	278,210	1,580,326	-	-	1,580,326
Other	101,870	162,320	-	-	20,927	285,117	-	-	285,117
Total liabilities	4,678,304	1,834,076	233,614	-	1,077,780	7,823,774	2,527,361	-	5,296,413
Fund balance									
Reserved for:									
Inventories	-	269,520	-	-	-	269,520	-	-	269,520
Encumbrances	390,869	-	-	-	-	390,869	-	-	390,869
Capital projects	-	-	-	572,909	4,327,118	4,900,027	-	-	4,900,027
Other specific purposes	-	-	-	96,017	183,654	279,671	-	-	279,671
Unreserved:									
Designated for future expenditures	-	-	3,022,794	7,647	-	3,030,441	-	-	3,030,441
Undesignated	3,128,249	955,113	-	-	-	4,083,362	-	-	4,083,362
Total fund balance	3,519,118	1,224,633	3,022,794	676,573	4,510,772	12,953,890	-	-	12,953,890
Total liabilities and fund balances	$ 8,197,422	$ 3,058,709	$ 3,256,408	$ 676,573	$ 5,588,552	$ 20,777,664	$ 2,527,361	$ 2,527,361	$ 18,250,303

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
SPECIAL FUNDS IN GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2006

	General Fund (01)	Special Funds Unreserved-GF	Special Funds Designated-GF	Special Funds Reserved	Commonwealth Legislature Resolutions	Subtotal	Eliminations		Total General Fund
Revenues:									
Taxes:									
Property taxes	$ 2,980,949	$ -	$ -	$ -	$ -	$ 2,980,949	$ -	$ -	$ 2,980,949
Municipal license taxes	2,228,950	-	-	-	-	2,228,950	-	-	2,228,950
Intergovernmental									
Commonwealth government	6,148,263	390,990	-	285,594	429,163	7,254,010	-	-	7,254,010
Fees, fines and charges for services	1,657,487	2,212,458	-	-	-	3,869,945	-	-	3,869,945
Interest	143,490	40,736	-	12,051	74,051	270,328	-	-	270,328
Other	63,460	-	-	-	-	63,460	-	-	63,460
Total revenues	13,222,599	2,644,184	-	297,645	503,214	16,667,642	-	-	16,667,642
Expenditures:									
Current:									
General government	5,740,672	601,156	252,663	22	-	6,594,513	-	-	6,594,513
Public works and sanitation	2,283,120	61,810	63,782	4,174	69,186	2,482,072	-	-	2,482,072
Public safety	937,271	-	-	7,900	-	945,171	-	-	945,171
Culture and recreation	464,251	-	-	-	-	464,251	-	-	464,251
Health	572,030	2,295,114	-	11,275	-	2,878,419	-	-	2,878,419
Housing, welfare and community development	966,267	-	-	60,776	19,676	1,046,719	-	-	1,046,719
Capital outlays	40,923	19,455	318,634	265,906	1,432,025	2,076,943	-	-	2,076,943
Debt service									
Bond issuance costs	-	-	-	483	-	483	-	-	483
Total expenditures	11,004,534	2,977,535	635,079	350,536	1,520,887	16,488,571	-	-	16,488,571
Excess (deficiency) of revenues over expenditures	2,218,065	(333,351)	(635,079)	(52,891)	(1,017,673)	179,071			179,071
Other financing sources (uses):									
Payment of lawsuit settlement	(825,000)	-	-	-	-	(825,000)	-	-	(825,000)
Proceeds Note Payable PR Treasury Department	825,000	-	-	-	-	825,000	-	-	825,000
Discount-Note Payable PR Treasury Department	(96,378)	-	-	-	-	(96,378)	-	-	(96,378)
Transfers in	176,544	2,681	2,059,810	-	-	2,239,035	2,200,288	-	38,747
Transfers out	(1,817,948)	(40,736)	(464,810)	(99,838)	-	(2,423,332)	-	(2,200,288)	(223,044)
Total other financing sources (uses)	(1,737,782)	(38,055)	1,595,000	(99,838)	-	(280,675)	2,200,288	(2,200,288)	(280,675)
Net change in fund balance	480,283	(371,406)	959,921	(152,729)	(1,017,673)	(101,604)	2,200,288	(2,200,288)	(101,604)
Fund balance at beginning of year, as restated	3,038,835	1,596,039	2,062,873	829,302	5,528,445	13,055,494	-	-	13,055,494
Fund balance at end of year	$ 3,519,118	$ 1,224,633	$ 3,022,794	$ 676,573	$ 4,510,772	$ 12,953,890	$ 2,200,288	$ (2,200,288)	$ 12,953,890

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

SUPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET INFORMATION
JUNE 30, 2006

Line Item Number		Section 8 Housing Choice Vouchers 14.871
	ASSETS	
	Current Assets	
	Cash:	
111	Cash - unrestricted	$ 248,593
113	Cash - other restricted	8,017
100	Total cash	256,610
	Accounts and notes receivables:	
121	Accounts receivable - PHA projects	-
122	Accounts receivable - HUD other projects	1,856
125	Accounts receivable - miscellaneous	-
120	Total receivables, net of allowance for doubtful accounts	1,856
150	**Total Current Assets**	258,466
	Noncurrent Assets	
	Fixed assets	
164	Furniture, equipment & machinery - administration	20,848
166	Accumulated depreciation	(4,867)
160	Total fixed assets, net of accumulated depreciation	15,981
180	**Total Noncurrent Assets**	15,981
190	**TOTAL ASSETS**	$ 274,447
	LIABILITIES AND EQUITY	
	LIABILITIES	
	Current Liabilities	
312	Accounts payable < 90 days	3,142
345	Other current liabilities	11,120
347	Inter-program - due to	118,328
310	**Total Current Liabilities**	132,590
300	**TOTAL LIABILITIES**	132,590
	EQUITY	
501	Investment in general fixed assets	-
		-
	Contributed Capital	-
508.1	Invested in Capital Assets, Net of Related Debt	15,981
511.1	Restricted Net Assets	-
512.1	Unrestricted Net Assets	125,876
513	**TOTAL EQUITY/NET ASSETS**	141,857
600	**TOTAL LIABILITIES and EQUITY/NET ASSETS**	$ 274,447

The accompanying notes are an integral part of this schedule.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
FISCAL YEAR ENDED JUNE 30, 2006

Line Item Number		Section 8 Housing Choice Vouchers 14.871
	REVENUES:	
706	HUD PHA operating grants	$ 374,382
715	Other revenue	8,591
700	**TOTAL REVENUES**	382,973
	EXPENSES:	
	Administrative	
911	Administrative salaries	35,820
912	Auditing fees	5,000
915	Employee benefit contributions- administrative	9,182
916	Other operating- administrative	2,486
	Subtotal	52,488
	General expenses	
962	Other General Expenses	285
966	Bad debt - other	3,099
	Subtotal	3,384
969	**TOTAL OPERATING EXPENSES**	55,872
970	**EXCESSS OPERATING REVENUE OVER OPERATING EXPENSES**	327,101
973	Housing assistance payments	286,352
974	Depreciation expense	1,251
900	**TOTAL EXPENSES**	343,475
1000	**EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES**	$ 39,498
MEMO account information		
1103	Beginning equity	177,974
1104	Prior period adjustments, equity transfers and correction of errors	**(75,615)**
1113	Maximum annual contributions commitment (per ACC)	374,382
1115	Contingency reserve, ACC program reserve	18,727
1116	Total annual contributions available	393,109
1120	Unit months available	1,032
1121	Number of unit months leased	1,032

The accompanying notes are an integral part of this schedule.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE

June 30, 2006

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note C)	Federal Expenditures (note A)
U.S. Department of Agriculture			
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.558	CCC-205	$ 88,350
U.S. Department of Housing and Urban Development			
Community Development Block Grant - Entitlement Grants	14.218	N/A	1,273,304
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	FD-32, AB-32 FC-32, AF-32	568,105
Passed through the P.R. Department of Housing:			
Home Investment Partnership Program	14.239	N/AV	655,083
Section 8 Housing Choice Vouchers	14.871	N/A	342,224
Subtotal U.S. Department of Housing and Urban Development			2,838,716
U.S. Department of Labor			
Passed through the Northwestern Consortium:			
WIA Youth Activities	17.259	N/AV	9,788
U.S. Department of Transportation - National Highway Traffic Safety Administration			
Passed through the P.R. Department of Transportation - (Traffic Safety Commission)			
State and Community Highway Safety	20.600	N/AV	54,389
U.S. Department of Health and Human Services			
Passed through the P.R. Department of Family - Social Economic Development Administration:			
Temporary Assistance for Needy Families	93.558	N/AV	159,333
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	N/AV	123,911
Head Start Program	93.600	N/A	827,229
Subtotal U.S. Department of Health and Human Services			1,110,473
U.S. Department of Homeland Security-Federal Emergency Management Agency (FEMA)			
Passed through the Puerto Rico Governor's Office - (Governor's Authorized Representative-GAR):			
Disaster Grants - Public Assistance	97.036	FEMA-1552-DR-PR	8,637
Passed through the P.R. State Emergency Management Agency:			
Pre-Disaster Mitigation	97.047	N/AV	39,000
Subtotal U.S. Department of Homeland Security			47,637
Total Expenditures of Federal Awards			**$ 4,149,353**

The accompanying notes are an integral part of this schedule.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C – PASS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass–through awards", should be treated by the Municipality as though 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 the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Community Development Block Grant Fund	Head Start Program Fund	Other Governmental Funds
10.558	$ -	$ -	$ 88,350
14.218	1,273,304	-	-
14.228	568,105	-	-
14.239	-	-	655,083
14.871	-	-	342,224
17.259	-	-	9,788
20.600	-	-	54,389
93.558	-	-	159,333
93.575	-	-	123,911
93.600	-	827,229	-
97.036	-	-	8,637
97.047	-	-	39,000
Total federal awards expenditures	1,841,409	827,229	1,480,715
Total nonfederal awards expenditures	-	-	788,012
Total expenditures, fund statements	$ 1,841,409	$ 827,229	$ 2,268,727

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Management Consulting Services Division

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Isabela
Isabela, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Isabela as of and for the year ended June 30, 2006, which collectively comprise the Municipality of Isabela's basic financial statements, and have issued our report thereon dated December 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Municipality of Isabela's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Isabela'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 of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test 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 the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and the 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.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 11, 2006

The stamp 2190968 was affixed to the original of this report.

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Isabela
Isabela, Puerto Rico

Compliance

We have audited the compliance of Municipality of Isabela 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, 2006. Municipality of Isabela's major federal programs are identified in the summary of auditors' 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 Isabela's management. Our responsibility is to express and opinion on Municipality of Isabela'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 Isabela'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 on Municipality of Isabela' compliance with those requirements.

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As described in items 06-1 thru 06-3 in the accompanying schedule of findings and questioned costs, the Municipality of Isabela did not comply with requirements regarding cash management, and reporting that is applicable to its Community Development Block Grant program and eligibility that is applicable to its Section 8 Housing Choice Voucher program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Isabela to comply with requirements applicable to that programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Municipality of Isabela 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, 2006.

Internal Control over Compliance

The management of Municipality of Isabela 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 Isabela's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving in the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error of fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weaknesses.

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This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and the 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.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 11, 2006

The stamp 2190969 was affixed to the original of this report.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. SUMMARY OF AUDIT RESULTS

a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Isabela.

b. There were no reportable conditions on internal controls over financial reporting.

c. No instances of noncompliance material to the financial statements of Municipality of Isabela were disclosed during the audit.

d. There were reportable conditions on internal controls over major programs.

e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Isabela express a qualified opinion.

f. There were audit findings relative to the major federal award programs for the Municipality of Isabela are reported in number 3 of this schedule.

g. The programs tested as major programs included:

- Section 8 Housing Choice Vouchers Program - CFDA No. 14.871.
- Community Development Block Grants - CFDA No. 14.218
- State Block Grant Program - CFDA No. 14.228
- Home Investment Partnership Program - CFDA No. 14.239

h. The threshold for distinguishing types A and B programs was $300,000.

i. Municipality of Isabela was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

a. CDBG CFDA No. 14.218

- **Condition 06-1**

The program did not comply with the procedures for minimizing the time elapsing between the transfer of funds received from the Agency and disbursement by grantee.

Cause

The program does not have adequate control procedures for the cash management of the federal funds.

Effect

The Federal Program did not comply with the requirement of Cash Management.

Criteria

The CFR 24 Part 85.20 (7) establish the procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used.

Recommendation

The disbursements of funds should be made in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

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Management's Response

The Finance and Budget Office started and implemented during the month of October 2006, new strict procedures in order to insure that all advance payment funds requisitions from the U.S Treasury are approved in writing by the Finance Department Director, the Federal Funds Program Office Director and the program accountant prior to the transfer of all funds. Program accountants for each department will ascertain that funds are disbursed in accordance with the requested purpose in less than 5 days period and if such process is not executed as planned it should documented in writing.

Questioned Costs

$ -0-

- **Condition 06-2**

The Municipality did not show evidence of the date submitted of the Federal Cash Transaction Reports for the periods ended September 30 and December 31, 2005. In addition, the reports for the periods ended March 30 and June 30, 2006 were submitted after the required 15 labor days.

Cause

The Federal Program is not aware about the time required to submit the reports.

Effect

The Federal Program is not in compliance with the requirements of reporting.

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Criteria

Based on 24 CFR Part 85.41(c) (4) grantees must submit the report no later than 15 working days following the end of each quarter.

Recommendation

The Federal Program Office should be aware with the time required by Agency to submit the reports.

Management's Response

The Federal Funds Program Director confirmed that the aforementioned Federal Transaction Reports were submitted and received on time by the HUD Caribbean office. The Municipality was unable to provide evidence of the date the reports were submitted due in part to the fact that the Federal Office personnel were in the process of relocating their office at the time of the audit. In addition, management met with the program personnel to inform them of the reporting requirements in the 24 CFR Part 85.41(c) (4).

Questioned Costs

$ -0-

b. Section 8 Housing Choice Voucher - CFDA No. 14.871

- **Condition 06-3**

Some tenant files have deficiencies in relation to lack of documentation such as birth certificate (1), electronic submission of 50058 Form (2), and 9887 Form without signatures (1).

Cause

All of the above matters occur because the Municipality's system of internal control relating to the compliance requirements is not

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effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as for their accuracy. The current procedures do not effectively reduce the risk of ineligible participants receiving program benefits.

Effect

The continued failure to establish internal control over compliance with the above requirements exposes the Municipality to unauthorized user or disposition of the program's resources.

Criteria

24 CFR Sections 882-113, 882-209, 882-214, 882-412, 882-514, 882-515, 882-518, 883-711, 883-704, 889-103, 982.4, 982.54 (d) (15), 982.158 (f) (7), 982.158 (d), 982.405 (b), and 982.404 establish that the PHA is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and on a yearly basis, reexamine family income, composition, and contribution to rent, utilities reasonable rent and housing quality standards' inspections. In addition, the Municipality should verify that the information submitted by participants is reliable.

Recommendation

The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed during the initial processing and revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

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Management's Response

The Federal Funds Program Office personnel continue in an effort to eliminate the aforementioned deficiencies. As part of the 2005 corrective action plan adopted by the Municipality, the Federal Funds Program Office will be restructured to insure that personnel receive direct supervision from the Finance Department Director and other staff members associated with the Municipality's administrative office. Moreover, a checklist will be adopted accordance with the external auditor's recommendation.

Questioned Costs

$ -0-

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Program	Finding/Noncompliance	Status
Head Start CFDA No. 93.600	**Condition 05-1**	
	The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, some of the contracts selected do not have the certified payrolls.	Condition was not observed.
Section 8 Housing Choice Voucher Program CFDA No. 14.871	**Condition 05-2**	
	The Municipality's system of internal control over compliance with the documentation of participant files is not working effectively. During our audit of the participant files in the Section 8 programs, we noted that the Municipality was not maintaining the required documents and information in each file to support participant's eligibility as required by Section 8 Program regulations.	Condition still prevails.
State Block Grant Program CFDA No. 14.228	**Condition 04-111-02**	
	It was noted that the Municipality's internal control over disbursement process that supporting documents related to thirteen (13) issued checks were not stamped as paid.	Condition was corrected.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Program	Finding/Noncompliance	Status
Head Start CFDA No. 93.600	**Condition 04-111-03**	
	The Municipality did not perform interviews to ensure that contractors paid prevailing wages according to Department of Labor.	Condition was not observed.
Section 8 Housing Choice Voucher Program CFDA No. 14.871	**Condition 04-111-04**	
	Two participant files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.	Condition still prevails.
Section 8 Housing Choice Voucher Program CFDA No. 14.871	**Condition 04-111-05**	
	The Municipality did not assure that participants submit a third parties verifications regarding the family income and the family composition.	Condition was corrected.
State Block Grant Program CFDA No. 14.228	**Condition 04-111-07**	
	The model for construction contracts used by the Municipality did not contain the clause detailed for compliance with the provisions for Energy Policy and Conservation Act as required by the program regulation.	Condition was corrected.
Section 8 Housing Choice Voucher Program CFDA No. 14.871	**Condition 04-111-09**	
	Fourteen (14) tenant's files do not documented the determination that the rent to owner is reasonable in accordance with the Municipality's administrative plan initially and during the contract term.	Condition was corrected.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Program	Finding/Noncompliance	Status
Section 8 Housing Choice Voucher Program CFDA No. 14.871	**Condition 04-111-10** Two (2) participants' files do not have evidence of an initial unit inspection and eleven (11) do not have evidence of a periodic unit inspection.	Condition was corrected.
Section 8 Housing Choice Voucher Program CFDA No. 14.871	**Condition 04-111-11** There is no evidence of unit inspection report or other verification report documenting that any PHA required repairs were completed.	Condition was corrected.

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ISABELA
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Hon. Carlos O. Delgado Altieri
Alcalde

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES
2007 MAR 20 AM 11: 41
RECIBIDO
UNIDAD DE CORREO

Cap. 7.507.3

Secretaria de Administración
Oficina de Finanzas y Presupuesto

March 14, 2007

Lcdo. Ángel M. Castillo
PO Box 70167
San Juan, Puerto Rico
00926-9167

Dear Gentlemen:

Enclosed you will find the 2006 fiscal year Corrective Action Plan for the Single Audit Report of the Municipality of Isabela. The Municipality of Isabela in process of the implementation the related internal controls recommended by our internal and external auditors.

Should you need further information you can call Mrs. Carmen Rivera, Internal Auditor of the municipality or me at 787-872-2100 ext 2232.

Truly yours;

CPA Marisol Rosa Acevedo
Finance Director

Tel. (787) 872-2100 Ext. 2261 · Fax (787) 872-6300 · E-mail: finanzas@isabela.com.pr

MUNICIPALITY OF ISABELA
FEDERAL PROGRAMS OFFICE

CORRECTIVE ACTION PLAN
PROGRAM CDBG

FINDINGS	OBJECTIVES	KEY TASKS/ACTION ITEMS	LEAD STAFF	COMPLETION TARGET DATE
CONDITION 06-1 CDBG FUNDS (CFDA No. 14.218)				
1. The program did not comply with the procedures for minimizing the time elapsing between the transfer of funds received from the Agency and disbursement by grantee.	Implement adequate control procedures for cash management for the federal funds.	1. Our Municipality implemented the following procedures to assure compliance with CFR 24 Part 85.20 (7) and minimize the time in disbursing the federal funds: a. Before processing the request of funds for payment the CDBG, Accountant has to assure that all the documentation pertaining to the payment be processed completely before requesting the funds. This includes: Purchase Orders and Disbursements Forms must be pre-audited and signed by the Federal Programs Director, Finance Director, Pre-audited Officer, the Payer and the Mayer. b. The payment documentation must be entered into the OCAM finance computer system so that the only pending process be the check issuance, once the funds are deposited in the bank.	Mrs. Aixa Abrams Accountant and Federal Programs Supervisor	March 31, 2007

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MUNICIPALITY OF ISABELA
FEDERAL PROGRAMS OFFICE

CORRECTIVE ACTION PLAN
PROGRAM CDBG

FINDINGS	OBJECTIVES	KEY TASKS/ACTION ITEMS	LEAD STAFF	COMPLETION TARGET DATE
CONDITION 06-2 **CDBG FUNDS (CFDA No. 14.218)** a) The Municipality did not show evidence of the date submitted of the Federal Cash Transaction Reports for the periods ended September 30 and December 31, 2005.	Comply with 24 CFR Part 85.41 (c) (4) grantees must submit the report no later than 15 working days following the end of each quarter.	We have implemented a calendar with all the due dates for the reports required by HUD to assure a timely compliance and we will emphasize the record keeping procedures to assure to have evidence of filing compliance.	1. Aixa Abrams Accountant 2. Federal Programs Supervisor	March 31, 2007
b) In addition, the reports for the periods ended on March 30 and June 30, 2006 were submitted after the required 15 labor days.	Comply with 24 CFR Part 85.41 (c) (4) grantees must submit the report no later than 15 working days following the end of each quarter.	We have implemented a calendar with all the due dates as mentioned above to assure a timely compliance.	1. Aixa Abrams Accountant 2. Federal Programs Supervisor	March 31,2007

MUNICIPALITY OF ISABELA
FEDERAL PROGRAMS OFFICE

CORRECTIVE ACTION PLAN
SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

FINDINGS	OBJECTIVES	KEY TASKS/ACTION ITEMS	LEAD STAFF	COMPLETION TARGET DATE
CONDITION 06-3 SECTION 8 HOUSING CHOICE VOUCHER – CFDA No. 14.871				
1. Some tenant files have deficiencies in relation to lack of documentation such as birth certificate (one case).	Comply with 24 CFR Sections 882-113, 882-209, 882-214, 882-412, 882-514, 882-515, 882-518, 883-711, 883-704, 889-103, 982.4, 982.54 (d) (15), 982.158 (f) (7), 982.158 (d) 982.405 (b), and 982.404 establishes that the PHA is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and on a yearly basis, reexamine family income, composition, and contribution to rent, utilities, reasonable rent and housing quality standards' inspections. In addition, the Municipality should verify that the information submitted by participants is reliable.	1. The only case that the birth certificate was not found was due to the fact that the file had been divided into a second one because of all the paperwork compiled during all the years the participant had been in the program. A copy of the birth certificate was sent to the external auditors for review and to document that the program complied with their procedures, nevertheless, we will assure in the future that when files be divided, all the necessary documentation be filed in the new one.	1. Doris Mercado Coordinator 2. Federal Programs Supervisor	Immediate action or March 31, 2007

MUNICIPALITY OF ISABELA
FEDERAL PROGRAMS OFFICE

CORRECTIVE ACTION PLAN
SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

FINDINGS	OBJECTIVES	KEY TASKS/ACTION ITEMS	LEAD STAFF	COMPLETION TARGET DATE
CONDITION 06-3 2. Electronic submission of 50058 form (2 cases).	Comply with 24 CFR Sections 882-113, 882-209, 882-214, 882-412, 882-514, 882-515, 882-518, 883-711, 883-704, 889-103, 982.4, 982.54 (d) (15), 982.158 (f) (7), 982.158 (d) 982.405 (b), and 982.404 establishes that the PHA is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and on a yearly basis, reexamine family income, composition, and contribution to rent, utilities, reasonable rent and housing quality standards' inspections. In addition, the Municipality should verify that the information submitted by participants is reliable.	To avoid this finding the forms will be re-submitted the same month the form 50058 is filled in the FRS program. As informed by HUD Office the form was received by Grantor, but we were not able to provide a copy in the audit process. In addition, the Program Management will emphasize the record keeping procedures to assure to have evidence of filing compliance in the future.	1. Doris Mercado Coordinator 2. Federal Programs Director	Immediate Action or before March 31, 2007

RS/mr

MUNICIPALITY OF ISABELA
FEDERAL PROGRAMS OFFICE

CORRECTIVE ACTION PLAN
SECTION 8 VOUCHER PROGRAM

FINDINGS	OBJECTIVES	KEY TASKS/ACTION ITEMS	LEAD STAFF	COMPLETION TARGET DATE
3. Form 9887 without signatures (one case).	Comply with 24 CFR Sections 882-113, 882-209, 882-214, 882-412, 882-514, 882-515, 882-518, 883-711, 883-704, 889-103, 982.4, 982.54 (d) (15), 982.158 (f) (7), 982.158 (d) 982.405 (b), and 982.404 establishes that the PHA is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and on a yearly basis, reexamine family income, composition, and contribution to rent, utilities, reasonable rent and housing quality standards' inspections. In addition, the Municipality should verify that the information submitted by participants is reliable.	1. The Authorization for the Release of Information/Privacy Act Form **9886** for **Section 8 Rental Vouchers** is signed by all adult participants and every member 18 years or older. *Some family members turn 18 after the annual reexamination is processed. We will assure that any 18 year old in the household sign the form as soon as he turns 18.	1. Doris Mercado Coordinator 2. Federal Programs Supervisor	September 1, 2007

Signed by: Jason D. Leon, CPA / Finance Dept. Director

Date: 1 / 2007

INTERNET REPORT ID: 228163 12/26/2006 OMB No. 0348-0057

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)*

1. Fiscal period ending date for this submission
Month 06 / Day 30 / Year 2006 — Fiscal Period End Dates Must Be In 2004, 2005, or 2006

2. Type of Circular A-133 audit
1 [X] Single audit 2 [ ] Program-specific audit

3. Audit period covered
1 [X] Annual 2 [ ] Biennial 3 [ ] Other – [ ] Months

4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse

5. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN) 66-0433796

b. Are multiple EINs covered in this report? 1 [ ] Yes 2 [X] No

c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number

e. Are multiple DUNS covered in this report? 1 [ ] Yes 2 [X] No

f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF ISABELA

b. Auditee address *(Number and street)*
PO BOX 507

City
ISABELA

State PR ZIP + 4 Code 00662-0507

c. Auditee contact
Name
CPA JASON LEON ARROYO

Title
FINANCE DIRECTOR

d. Auditee contact telephone
(787) 872 – 2100

e. Auditee contact FAX
(787) 830 – 8045

f. Auditee contact E-mail

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: Jason León Arroyo — Date: 01/03/2007

Printed Name of certifying official: Jason D. León Arroyo

Printed Title of certifying official: Finance Department Director

7. AUDITOR INFORMATION *(To be completed by auditor)*

a. Auditor name
ORTIZ,RODRIGUEZ, RIVERA & CO

b. Auditor address *(Number and street)*
SUITE 152 PO BOX 70250

City
SAN JUAN

State PR ZIP + 4 Code 00936-7250

c. Auditor contact
Name
CPA LUIS RIVERA ZUÑIGA

Title
PARTNER

d. Auditor contact telephone
(787) 756 – 8524

e. Auditor contact FAX
(787) 274 – 0562

f. Auditor contact E-mail

g. 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: Ortiz, Rodriguez, Rivera & Co — Date: 12/27/06

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

No.	EIN	No.	EIN	No.	EIN
1	N / A	21	–	41	–
2	–	22	–	42	–
3	–	23	–	43	–
4	–	24	–	44	–
5	–	25	–	45	–
6	–	26	–	46	–
7	–	27	–	47	–
8	–	28	–	48	–
9	–	29	–	49	–
10	–	30	–	50	–
11	–	31	–	51	–
12	–	32	–	52	–
13	–	33	–	53	–
14	–	34	–	54	–
15	–	35	–	55	–
16	–	36	–	56	–
17	–	37	–	57	–
18	–	38	–	58	–
19	–	39	–	59	–
20	–	40	–	60	–

f. List the multiple DUNS covered in the report.

No.	DUNS	No.	DUNS
1	N / A –	21	– –
2	– –	22	– –
3	– –	23	– –
4	– –	24	– –
5	– –	25	– –
6	– –	26	– –
7	– –	27	– –
8	– –	28	– –
9	– –	29	– –
10	– –	30	– –
11	– –	31	– –
12	– –	32	– –
13	– –	33	– –
14	– –	34	– –
15	– –	35	– –
16	– –	36	– –
17	– –	37	– –
18	– –	38	– –
19	– –	39	– –
20	– –	40	– –

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

PART II FINANCIAL STATEMENTS *(To be completed by auditor)*

1. Type of audit report
   Mark either: 1 [X] 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 [X] No

3. Is a reportable condition disclosed? 1 [ ] Yes 2 [X] 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 [X] 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 [X] No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 §___ .520(b)) $ 300,000

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

4. Is a reportable condition disclosed for any major program? (§ ___ .510(a)(1)) 1 [X] Yes 2 [ ] No –*SKIP to Item 6*

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

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

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§___.315(b)) 1 [X] 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 [ ] U.S. Agency for International Development	83 [ ] Federal Emergency Management Agency	43 [ ] National Aeronautics and Space Administration	96 [ ] Social Security Administration
10 [ ] Agriculture	39 [ ] General Services Administration	89 [ ] National Archives and Records Administration	19 [ ] U.S. Department of State
23 [ ] Appalachian Regional Commission	93 [X] Health and Human Services	05 [ ] National Endowment for the Arts	20 [ ] Transportation
11 [ ] Commerce	97 [ ] Homeland Security	06 [ ] National Endowment for the Humanities	21 [ ] Treasury
94 [ ] Corporation for National and Community Service	14 [X] Housing and Urban Development	47 [ ] National Science Foundation	82 [ ] United States Information Agency
12 [ ] Defense	03 [ ] Institute of Museum and Library Services	07 [ ] Office of National Drug Control Policy	64 [ ] Veterans Affairs
84 [ ] Education	15 [ ] Interior	59 [ ] Small Business Administration	00 [ ] **None**
81 [ ] Energy	16 [ ] Justice		[ ] Other – *Specify:*
66 [ ] Environmental Protection Agency	17 [ ] Labor		
	09 [ ] Legal Services Corporation		

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 . . . . . [X]
- and, if not marked above, the Federal cognizant agency . . . . . [ ]

Count total number of boxes marked above and submit this number of reporting packages 3

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR | **10.** AUDIT FINDINGS

CFDA Number: 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: Major program (g)	Major program: If yes, type of audit report[3] (h)	Type(s) of compliance requirement(s)[4] (a)	Audit finding reference number(s)[5] (b)
10	.558	1 ☐ Yes 2 ☒ No	CHILD AND CARE FOOD PROGRAM	$ 88,350 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
14	.218	1 ☐ Yes 2 ☒ No	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANTS	$ 1,273,304 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	Q	CL	06-1,06-2
14	.228	1 ☐ Yes 2 ☒ No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	$ 568,105 .00	1 ☐ Yes 2 ☒ No	1 ☒ Yes 2 ☐ No	U	O	N/A
14	.239	1 ☐ Yes 2 ☒ No	HOME INVESTMENT PARTNERSHIP PROGRAM	$ 655,083 .00	1 ☐ Yes 2 ☒ No	1 ☒ Yes 2 ☐ No	U	O	N/A
14	.871	1 ☐ Yes 2 ☒ No	SECTION 8 HOUSING CHOICE VOUCHERS	$ 342,224 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	Q	E	06-3
17	.259	1 ☐ Yes 2 ☒ No	WIA YOUTH ACTIVITIES	$ 9,788 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
20	.600	1 ☐ Yes 2 ☒ No	STATE AND COMMUNITY HIGHWAY SAFETY	$ 54,389 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
93	.558	1 ☐ Yes 2 ☒ No	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	$ 159,333 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
93	.575	1 ☐ Yes 2 ☒ No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	$ 123,911 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
93	.600	1 ☐ Yes 2 ☒ No	HEAD START PROGRAM	$ 827,229 .00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED →				$ 4,149,353 .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.

- 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

[5] N/A for NONE

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR | **10.** AUDIT FINDINGS

CFDA Number: 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: Major program (g)	Major program: If yes, type of audit report[3] (h)	Type(s) of compliance requirement(s)[4] (a)	Audit finding reference number(s)[5] (b)
9 7	.036	1 ☐ Yes 2 ☒ No	DISASTER GRANTS-PUBLIC ASSISTANCE	$ 8,637 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
9 7	.047	1 ☐ Yes 2 ☒ No	PRE-DISASTER MITIGATION	$ 39,000 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			

TOTAL FEDERAL AWARDS EXPENDED → $ 4,149,353 .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.

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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
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

[5] N/A for NONE