

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE ISABELA
AUDITORIA 2006-2007

30 DE JUNIO DE 2007

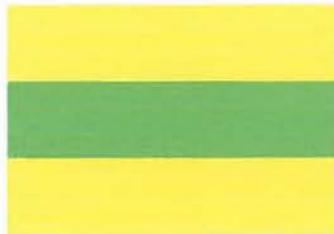


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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

FISCAL YEAR ENDED JUNE 30, 2007



**Hon. Carlos Delgado Altieri
Mayor**

**Marisol Rosa Acevedo, CPA
Finance and Budget Director**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524. Fax (787) 274-0562

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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PART I - FINANCIAL SECTION

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Management Consulting
Services Division

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, 2007, 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, 2007 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 12, 2007, 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, Rivera, Rivera & Co.

San Juan, Puerto Rico
December 12, 2007

The stamp 2299727 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

The following discussion will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2007 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 2007 by \$48,982,386 (net assets).
- Revenues increased by 23% and expenses increased 4% in comparison with year 2006.
- Net change in net assets amounted to \$8,092,180, an increase of 135% 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, 2007, a net change of \$10,798,825 in the fund balances of the Municipality's governmental funds resulted in combined ending fund balances of \$25,272,290. Approximately 43% of the total combined fund balances is unreserved.
- The General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$3,796,258 and an unreserved fund balance of \$10,904,402. Unreserved fund balance increased 53% from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2007 was \$36,208,379 (net of depreciation).
- Long term debt increased to \$16,220,239.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$1,889,987.

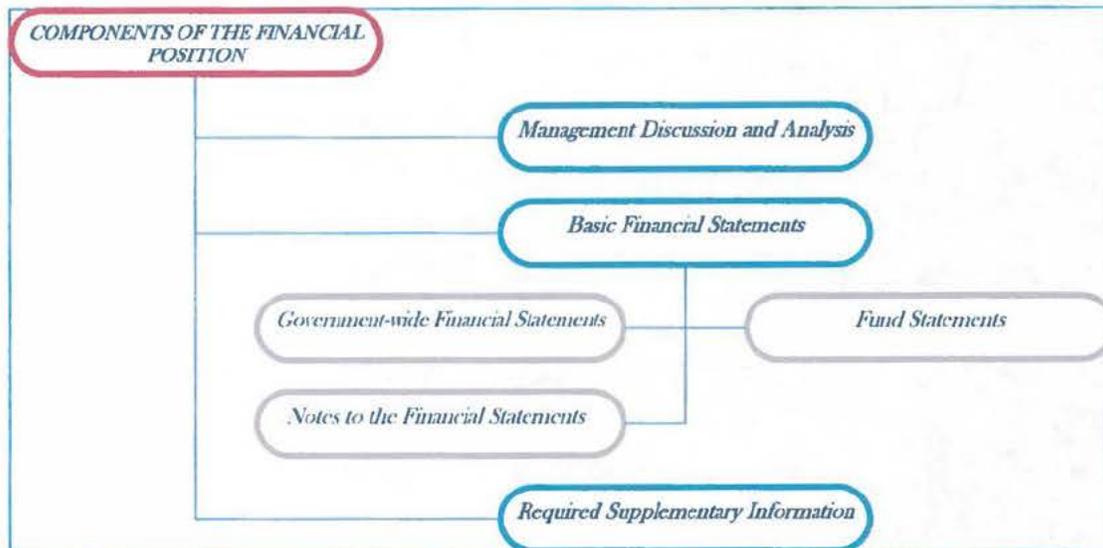
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

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, 2007

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

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

TABLE 1

<i>Summary Statement of Net Assets As of June 30,</i>		
	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 32,846,707	\$ 25,114,594
Capital assets	36,208,379	33,987,211
Total assets	\$ 69,055,086	\$ 59,101,805
Liabilities		
Current and other liabilities	\$ 3,852,461	\$ 4,728,196
Long term liabilities	16,220,239	13,483,403
Total liabilities	20,072,700	18,211,599
Net assets		
Invested in capital assets, net of related debt	34,864,145	33,327,211
Restricted	14,252,743	11,106,927
Unrestricted (deficit)	(134,502)	(3,543,932)
Total net assets	\$ 48,982,386	\$ 40,890,206

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 20% 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 constraints 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, 2007

As of June 30 2007, 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, 2007 and 2006:

TABLE 2

<i>Summary of Changes in Net Assets As of June 30,</i>		
	Governmental Activities	
	2007	2006
Program revenues:		
Fees, fines and charges for services	\$ 5,418,106	\$ 5,248,388
Operating grants and contributions	2,016,548	2,202,249
Capital grants and contributions	5,442,558	3,308,761
General revenues:		
Property taxes	5,048,773	4,772,730
Municipal license taxes	2,205,503	2,228,950
Sales and use taxes	2,378,372	-
Grants and contributions not restricted to specific programs	4,902,541	4,721,436
Interest	755,918	339,076
Other	419,461	380,785
Total revenues	28,587,780	23,202,375
Expenses:		
General government	8,024,365	7,767,919
Public works and sanitation	3,586,281	3,409,113
Public safety	1,038,655	1,101,703
Culture and recreation	971,763	710,027
Health	3,022,409	2,888,316
Housing, welfare and community development	2,554,922	2,628,639
Education	852,756	959,092
Interest on long term debt	444,449	287,919
Total expenses	20,495,600	19,752,728
Change in net assets	8,092,180	3,449,647
Net assets-beginning of year	40,890,206	37,440,559
Net assets-end of year	\$ 48,982,386	\$ 40,890,206

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
MANAGEMENT DISCUSSION AND ANALYSIS**

Fiscal year ended June 30, 2007

FIGURE 1

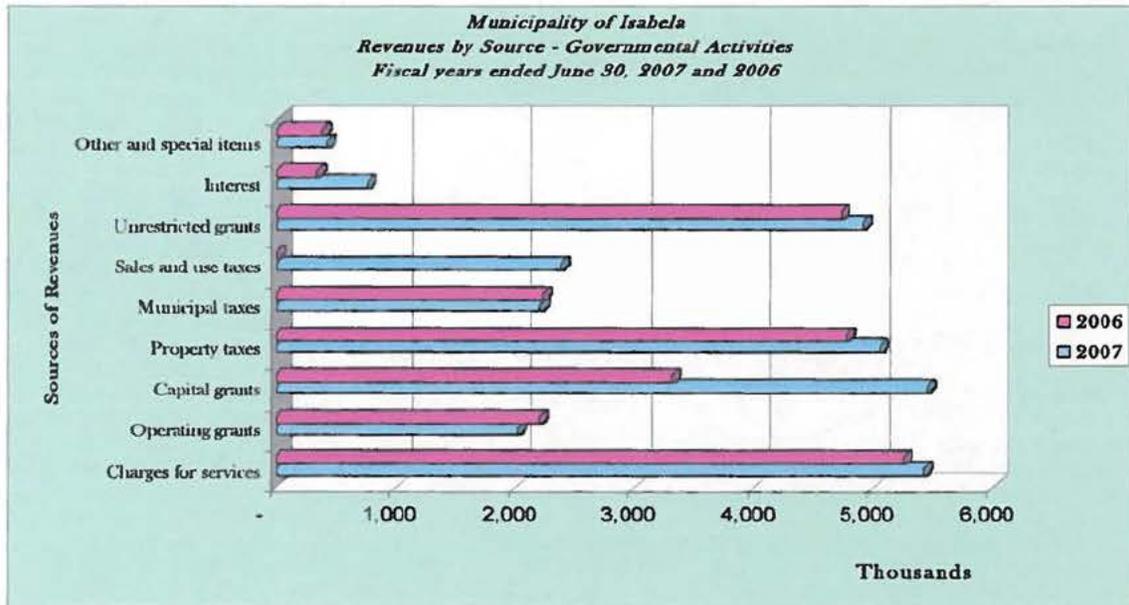
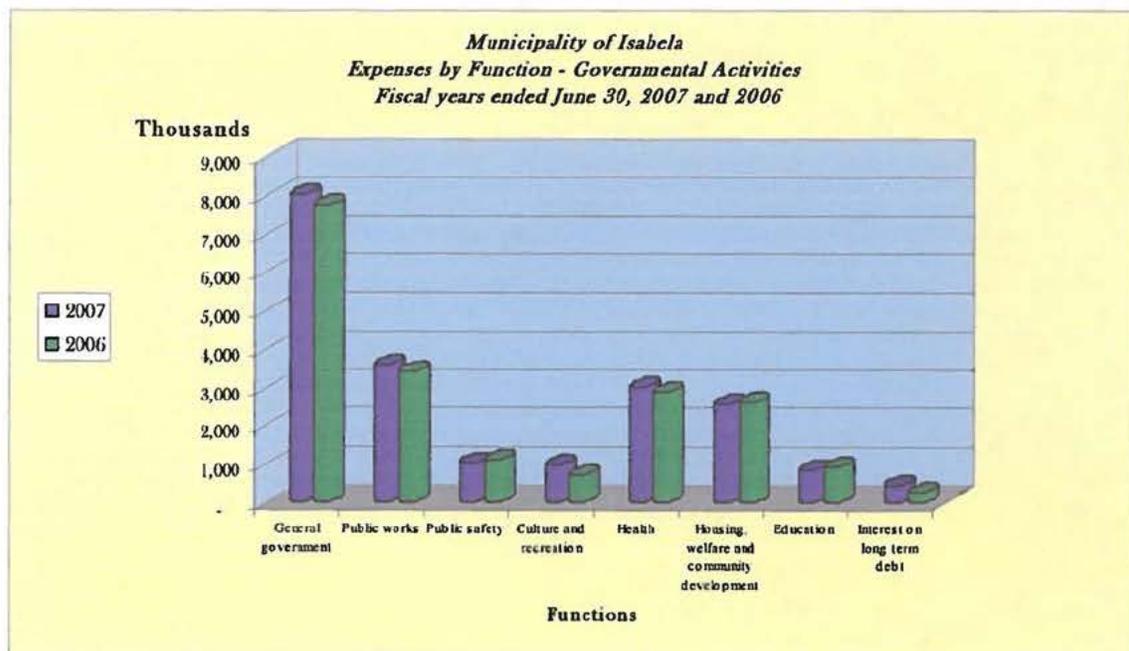


FIGURE 2



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

Approximately 19% of the Municipality's revenues came from fees and charges for services, 19% from capital grants, 18% from property taxes and 17% 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%, health with 15% and housing, welfare and community development with 12%. Program revenues of the Municipality covered 63% of total expenses.

With respect to prior year, revenues reported a net increase of approximately 23%. This net increase is primarily the result of: (1) a 64 % increase in capital grants revenues due to the recognition of the moneys received from the \$575,000,000 in 2006 Series A Public Improvement Bonds issued by the Commonwealth Government; (2) a 123% increase in interest revenue due to the issuance of new certificates of deposits in the amount of \$4,515,302 and an increase of almost 1 point in the interest rate earned on these investments; (3) 6% increase in property taxes; (4) and the recognition of the new revenue source sales and use taxes, which amounted to \$2,378,372 for the fiscal year 2006-2007.

Expenses increased 4% in comparison with 2006 year. Significant increases were registered on interest on long term debt with 54%, culture and recreation with 37%, public works and sanitation with 5%, and general government with 3%, which were offset by a decrease of 11% on education.

As noted previously the significant increase in revenues caused an increase of 135% 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

<i>Net Cost of Municipality's Governmental Activities</i>				
<i>Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General government	\$ 8,024,365	\$ 7,767,919	\$ 4,045,127	\$ 4,008,337
Public works and sanitation	3,586,281	3,409,113	(1,469,539)	699,885
Public safety	1,038,655	1,101,703	941,455	938,878
Health	3,022,409	2,888,316	834,683	550,292
Housing, welfare and community development	2,554,922	2,628,639	1,683,268	1,666,129
Education	852,756	959,092	174,607	131,863
Other	1,416,212	997,946	1,408,787	997,946
	<u>\$ 20,495,600</u>	<u>\$ 19,752,728</u>	<u>\$ 7,618,388</u>	<u>\$ 8,993,330</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$5,418,106) and other governments and organizations that subsidized certain programs with grants and contributions (\$7,459,106). The \$7,618,388 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, 2007, the governmental funds reported combined ending fund balances of \$25,272,290, a net increase of \$10,798,825 in comparison with the prior year. This increase was caused primarily by a net change in the general fund of \$3,796,258; \$1,347,073 in the debt service fund; and \$5,322,210 in other governmental funds. Of total combined fund balances, \$10,904,402 (43%) 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, 2007, the fund balance of the general fund decreased by \$1,339,392 when compared with the prior year. This net decrease is the result of the transfer to other fund categories of various special funds that were included as part of the general fund in last year's financial statements, whose beginning fund balances amounted to \$5,135,650; and the recognition of the current year's total positive net change of \$3,796,258. The most significant fund transferred was the Commonwealth Legislature Resolutions Fund, which was reported as a major fund in the current fund financial statements and whose beginning fund balance amounted to \$4,510,772. Of the net change of \$3,796,258, \$989,813 pertains to the remaining other special funds included as part of the general fund. The principal components of the net increase of \$3,545,899 in revenues are an increase of \$664,031 in property taxes; an increase of \$297,121 in fees, fines and charges for services, an \$108,411 increase in interest revenue and the recognition of the new revenue source sales and use taxes, which amounted to \$2,378,372 for the fiscal year 2006-2007. The net increase in expenditures of \$79,564 is due to an increase of \$912,303 in general government; an increase of \$111,526 in health; and an increase of \$71,398 in culture and recreation, which were offset by a decrease of \$1,017,351 in capital outlays.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2006-2007 presented an increase of 19% with respect to prior year budget, mainly due to the inclusion of the new revenue source sales and use taxes. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$2,135,096 due to additional collections of sales and use taxes, charges for services (mainly construction permits), property taxes and interest revenue. Budget expenditures were increased by \$521,812. Actual revenues exceeded the revised budgeted revenues by \$3,627 (net). The most significant variances were in property taxes, \$609,442; sales and use taxes, (\$970,634); fees, fines and charges for services, \$85,768; and interest, \$185,345.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

A positive variance of \$636,733 between revised budget and actual expenditures was due mainly to net decreases in the following functions: \$286,987 in general government, \$125,901 in public works and sanitation, \$93,217 in public safety, and \$95,540 in housing, welfare and community development expenditures. The Municipality reported less expenditure (net) than appropriations in those functions on payments for salaries and fringe benefits. Actual revenues exceeded actual expenditures by \$1,889,987.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$36,208,379 (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 7% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2007	2006
Non-depreciable assets:		
Land	\$ 4,055,589	\$ 4,055,589
Construction in progress	3,624,421	5,051,706
Depreciable assets:		
Leasehold improvements	421,411	459,303
Buildings and buildings improvements	13,805,444	11,092,067
Infrastructure	9,858,681	8,926,448
Vehicles, machinery and equipment	4,442,833	4,402,098
Total	\$ 36,208,379	\$ 33,987,211

The Municipality's major capital projects that were still in construction as of June 30, 2007 are as follows:

- Renovation of City Hall - \$475,175
- Improvements to the downtown electrical infrastructure - \$1,429,746
- Construction of Youth Sport and Educational Center - \$325,000
- Construction of "Parque Urbano" - \$263,090
- Renovation of Home Care for the Elderly Center-"Trinitaria" Street - \$321,680
- Road Improvements "Corchado" Community- \$310,471
- Construction of Home Care for the Elderly Center "Planas" Community- \$243,937

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

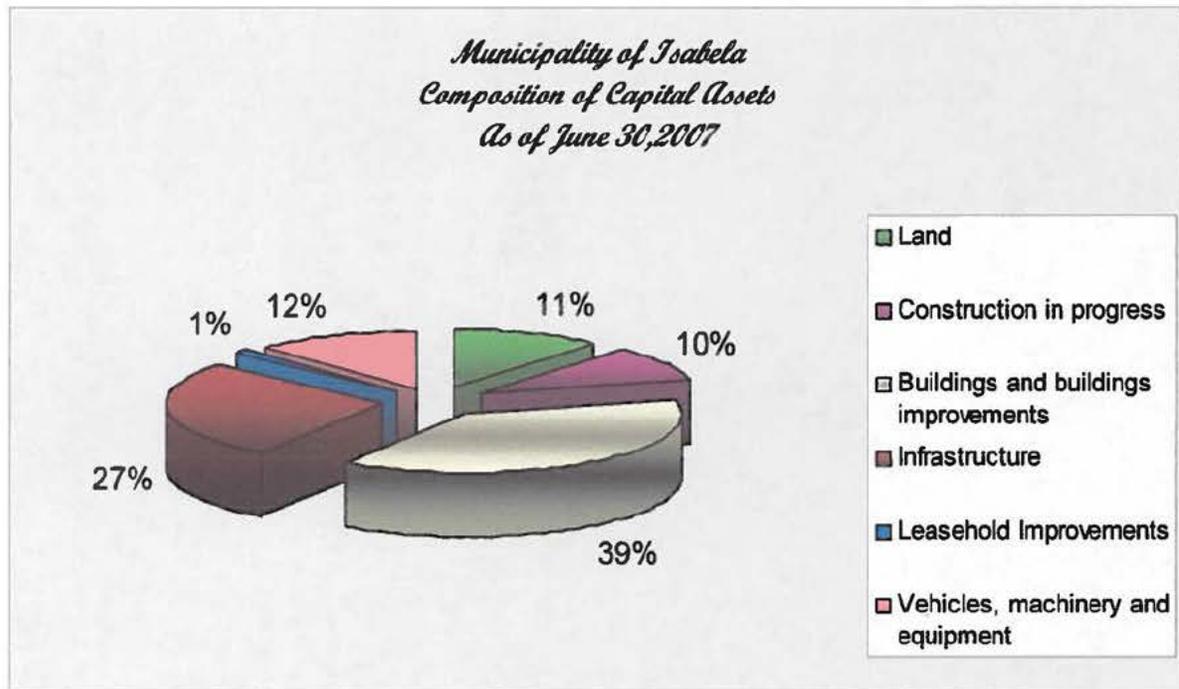
Construction in progress decreased significantly due to the completion of the "Picadero Municipal" project, whose total cost amounted to \$2,714,058.

The Municipality reported approximately \$1,286,202 in infrastructure additions during the year, which are composed mainly of capital improvements.

The Municipality acquired a total of \$670,424 of equipment during the fiscal year 2006-2007, including several compactor and pickup trucks and two sport utility vehicles for a total amount of \$465,355.

The Municipality's fiscal year 2007-2008 consolidated capital budget calls for a significant amount of new and continuous projects including the renovation of the City Hall, construction of "Parque Urbano," construction of a new Youth Sport and Educational Center, construction of a centralized emergency management 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, 2007 follows:



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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

Long term debt

At year-end, the Municipality had \$7,894,024 in general and special bonds and notes, an increase of 46% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2007 and 2006:

TABLE 5

<i>Outstanding Long-term Debt As of June 30,</i>			
	Governmental Activities		
	2007	2006	
General and special obligation bonds and notes	\$ 7,894,024	\$ 5,416,024	
Note payable to CRIM – LIMS	271,404	322,594	
Note Payable to CRIM – prior years delinquent accounts	72,008	131,846	
Note payable to Puerto Rico Department of Labor	141,145	214,078	
Note payable to PR Employee Retirement System Administration	195,732	-	
Note payable to Puerto Rico Solid Waste Authority	170,236	221,366	
Note payable to Puerto Rico Treasury Department	597,065	728,622	
Landfill obligation	4,377,357	4,138,125	
Compensated absences	2,102,208	1,910,622	
Christmas Bonus	360,253	355,630	
Claims and judgments	-	10,883	
Payable to CRIM – property tax advances	38,807	33,613	
Total	\$ 16,220,239	\$ 13,483,403	

The increase in the general and special obligation bonds and notes is the result of the issuance of a \$3,010,000 bond for the renovation of the City Hall. The increase in the notes payable with the Puerto Rico Employee Retirement System Administration 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 I 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 2007-2008 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 13.8%, which compares with the Commonwealth rate of 12.0%. Another important factor that may affect the 2007-2008 budget is the implementation of the new Act No. 80 which imposes certain restrictions on the use of the resources obtained from the sales and use taxes collected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2007

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2007-2008 are \$14,523,675, an increase of approximately 2% 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, 2007**

	Governmental Activities
ASSETS	
Cash and investments	\$ 13,379,992
Receivables, net:	
Sales and use taxes	270,472
Other	517,140
Due from:	
Commonwealth Government	662,980
Federal Government	3,420,395
Restricted assets:	
Cash	8,102,613
Cash with fiscal agent	3,158,411
Investment held with fiscal agent	2,806,114
Deferred charges	46,321
Inventories and Supplies	316,571
Other assets	165,698
Capital Assets (note G):	
Land and construction in progress	7,680,010
Other capital assets, net	28,528,369
	36,208,379
Total assets	\$ 69,055,086
LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,268,954
Interest payable	233,892
Due to:	
Commonwealth Government	295,858
Deferred revenues:	
Municipal license taxes	1,951,878
Other	101,879
Long term liabilities (note I):	
Due within one year	1,127,645
Due in more than one year	15,092,594
Total liabilities	20,072,700
NET ASSETS	
Invested in capital assets, net of related debt	34,864,145
Restricted for:	
Capital projects	10,264,803
Debt service	2,965,458
Other specified purposes	1,022,482
Unrestricted (deficit)	(134,502)
Total net assets	\$ 48,982,386

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2007

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Assets
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 8,024,365	\$ 3,218,741	\$ 564,451	\$ 196,046	\$ (4,045,127)
Public works and sanitation	3,586,281	4,214	5,581	5,046,025	1,469,539
Public safety	1,038,655	-	97,200	-	(941,455)
Culture and recreation	971,763	7,425	-	-	(964,338)
Health	3,022,409	2,187,726	-	-	(834,683)
Housing, welfare and community development	2,554,922	-	671,167	200,487	(1,683,268)
Education	852,756	-	678,149	-	(174,607)
Interest on long term debt	444,449	-	-	-	(444,449)
Total	\$ 20,495,600	\$ 5,418,106	\$ 2,016,548	\$ 5,442,558	(7,618,388)
General revenues:					
Taxes:					
Property taxes					
					5,048,773
Municipal license taxes					
					2,205,503
Sales and use taxes					
					2,378,372
Grants and contributions not restricted to specific programs					
					4,902,541
Interest					
					755,918
Other					
					419,461
Total general revenues					
					<u>15,710,568</u>
Change in net assets					
					8,092,180
Net assets-beginning					
					40,890,206
Net assets-ending					
					<u>\$ 48,982,386</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

Assets	Major Funds						Total Governmental Funds
	General	Community Development Block Grant	Head Start	Debt Service	Commonwealth Legislature Resolutions	Other Governmental Funds	
Cash and investments	\$ 13,379,992	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,379,992
Receivables, net							
Sales and use taxes (note M)	270,472	-	-	-	-	-	270,472
Other (note D)	472,728	-	-	-	36,364	8,049	517,141
Due from:							
Commonwealth Government (note E)	556,897	-	-	73,493	32,590	-	662,980
Federal Government (note E)	-	2,805,047	119,870	-	-	495,469	3,420,395
Other funds (note F)	1,050,503	-	-	-	-	39,095	1,089,598
Advances to other funds (note F)	-	-	-	-	1,307,498	-	1,307,498
Inventories and Supplies	316,571	-	-	-	-	-	316,571
Restricted assets:							
Cash and investments	93,653	2,071	14,202	-	3,349,895	4,642,792	8,102,613
Cash with fiscal agent	-	-	-	3,158,411	-	-	3,158,411
Investment held with fiscal agent (note C)	-	-	-	-	-	2,806,114	2,806,114
Other assets	115,428	-	-	-	-	-	115,428
Total assets	\$ 16,256,244	\$ 2,807,118	\$ 134,081	\$ 3,231,904	\$ 4,726,347	\$ 7,991,519	\$ 35,147,213
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 521,329	\$ 168,223	\$ 10,495	\$ -	\$ 32,591	\$ 536,316	\$ 1,268,954
Matured bonds and interest payable	-	-	-	395,024	-	-	395,024
Due to:							
Commonwealth Government	295,858	-	-	-	-	-	295,858
Other funds	9,069	69,676	123,586	32,554	30,027	824,687	1,089,599
Advances from other funds	1,307,498	-	-	-	-	-	1,307,498
Deferred revenues (notes H and L):							
Municipal license taxes	1,951,879	-	-	-	-	-	1,951,879
Commonwealth Government	343,628	-	-	31,550	-	-	375,178
Federal grants	-	2,741,804	-	-	-	209,584	2,951,388
Other	212,485	-	-	-	24,096	2,964	239,545
Total liabilities	4,641,746	2,979,703	134,081	459,128	86,714	1,573,551	9,874,923
Fund balances (deficit):							
Reserved for:							
Inventories	316,571	-	-	-	-	-	316,571
Encumbrances	308,940	-	-	-	-	-	308,940
Debt service	-	-	-	2,772,776	-	-	2,772,776
Capital projects	-	(172,585)	-	-	3,203,729	5,871,001	8,902,145
Other specific purposes	84,585	-	-	-	128,406	546,967	759,958
Advances	-	-	-	-	1,307,498	-	1,307,498
Unreserved:							
Designated for future expenditures	3,398,223	-	-	-	-	-	3,398,223
Undesignated	7,506,179	-	-	-	-	-	7,506,179
Total fund balances (deficit)	11,614,498	(172,585)	-	2,772,776	4,639,633	6,417,968	25,272,290
Total liabilities and fund balances (deficit)	\$ 16,256,244	\$ 2,807,118	\$ 134,081	\$ 3,231,904	\$ 4,726,347	\$ 7,991,519	\$ 35,147,213

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total governmental fund balances: **\$ 25,272,290**

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: 36,208,379

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

Deferred charges:	\$	46,321	
Other assets		50,270	96,591

Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Receivables:

Construction Permits	18,600		
Charges for services	89,466		
Interest	29,600		

Due from Commonwealth Government:

P.R. Department of Labor (Law No. 52 and 82)	44,465		
P.R. Department of Education	105,000		
Property taxes-Debt Service Fund	31,550		
Christmas Bonus Reimbursement	167,326		
Grant from P.R. Solid Waste Authority	6,005		
Grant from P.R. Department of Transportation	20,831		

Due from Federal Government:

Federal Grant-HOME	90,970		
Federal Grant-State and Community Highway Safety	10,276		
Federal Grant-Child Care	108,340		
Federal Grant-CDBG	2,741,804		3,464,233

Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds: (18,868)

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	7,714,024		
Note payable to CRIM-LIMS	271,404		
Note payable to CRIM-financing of delinquent accounts	72,008		
Note payable to P.R. Department of Labor	141,145		
Note payable to P.R. Solid Waste Authority	170,236		
Note payable to P.R. Treasury Department	597,065		
Note payable to Employees Retirement System	195,732		
Compensated absences	2,102,208		
Christmas Bonus	360,253		
Estimated solid waste landfill closure and post-closure costs	4,377,357		
Payable to CRIM-excess of property tax advances	38,807		(16,040,239)

Net assets of governmental activities: **\$ 48,982,386**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2007

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General	Community Development Block Grant	Head Start	Debt Service	Commonwealth Legislature Resolutions		
Revenues:							
Taxes							
Property taxes (note K)	\$ 3,644,980	\$ -	\$ -	\$ 1,978,419	\$ -	\$ -	\$ 5,623,399
Municipal license taxes (note L)	2,205,503	-	-	-	-	-	2,205,503
Sales and use taxes (note M)	2,378,372	-	-	-	-	-	2,378,372
Intergovernmental							
Commonwealth government (note N)	7,358,176	-	-	-	334,977	3,742,449	11,435,602
Federal government	-	1,833,714	678,149	-	-	1,309,216	3,821,079
Fees, fines and charges for services	3,922,620	-	-	-	-	-	3,922,620
Interest	378,739	-	-	102,438	113,488	154,914	749,579
Other	325,151	-	-	-	-	13,270	338,421
Total revenues	20,213,541	1,833,714	678,149	2,080,857	448,465	5,219,849	30,474,575
Expenditures:							
Current							
General government	7,506,816	196,046	-	32,554	-	51,869	7,787,285
Public works and sanitation	2,571,475	-	-	-	92,630	166,850	2,830,955
Public safety	904,891	-	-	-	-	66,424	971,315
Culture and recreation	535,649	-	-	-	-	6,229	541,878
Health	2,989,945	-	-	-	-	-	2,989,945
Housing, welfare and community development	999,284	404,790	-	-	6,000	1,129,941	2,540,015
Education	-	-	660,350	-	-	129,973	790,323
Capital outlays	1,059,592	1,028,455	17,799	-	205,243	1,280,233	3,591,322
Debt service							
Principal	-	-	-	212,000	-	-	212,000
Interest	-	-	-	406,691	-	-	406,691
Bond issuance costs	-	-	-	-	-	29,021	29,021
Total expenditures	16,567,652	1,629,291	678,149	651,245	303,873	2,860,540	22,690,750
Excess (deficiency) of revenues over expenditures	3,645,889	204,423	-	1,429,612	144,592	2,359,309	7,783,825
Other financing sources (uses):							
Proceeds from general obligation bonds	-	-	-	-	-	3,610,000	3,610,000
Payment of refunded special obligation notes	-	-	-	-	-	(595,000)	(595,000)
Proceeds from note payable - P.R. Employees Retirement System	210,060	-	-	-	-	-	210,060
Payment of increase in retirement plan benefits under Special Laws	(195,732)	-	-	-	-	-	(195,732)
Discount on note payable - P.R. Employees Retirement System	(14,328)	-	-	-	-	-	(14,328)
Transfers in	156,324	-	-	4,770	-	2,499	163,593
Transfers out	(5,955)	-	-	(87,309)	(15,731)	(54,598)	(163,593)
Total other financing sources (uses)	150,369	-	-	(82,539)	(15,731)	2,962,901	3,015,000
Net change in fund balances	3,796,258	204,423	-	1,347,073	128,861	5,322,210	10,798,825
Fund balances (deficit) at beginning of year, as restated (note S)	7,818,240	(377,008)	-	1,425,703	4,510,772	1,095,758	14,473,465
Fund balances (deficit) at end of year	11,614,498	\$ (172,585)	\$ -	\$ 2,772,776	\$ 4,639,633	\$ 6,417,968	\$ 25,272,290

The accompanying notes are an integral part of this statement.

*Ortiz
02/04/08*

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELLA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances-total governmental funds:		\$ 10,798,825
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	\$ 3,408,863	
Less: current year depreciation	<u>(1,200,458)</u>	2,408,405
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:		
		(259,228)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Construction permits	18,600	
P.R. Department of Labor (Law No. 52 and 82)	44,465	
P.R. Department of Education	105,000	
Property taxes-Debt Service Fund (current year)	31,550	
Christmas Bonus Reimbursement (current year)	107,326	
Federal Grant-State and Community Highway Safety	10,276	
Federal Grant-HOME	52,114	
Federal Grant-Child Care	108,340	
Federal Grant-CDBG (net change)	(489,490)	
Charges for services	65,103	
Interest	29,600	
Donated capital assets	<u>71,991</u>	214,375
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Property taxes-General Fund (current year)	(38,807)	
Property taxes-General Fund (prior year)	(283,571)	
Property taxes-Debt Service Fund (prior year)	(283,798)	
P.R. Department of Labor (Law No. 52 and 82)	(198,783)	
Grant from P.R. Department of Transportation	(188,612)	
Federal Grant-FEMA	(29,250)	
Commonwealth Legislature Resolutions (prior year)	(278,211)	
Charges for services	(154,264)	
Interest (prior year)	(23,261)	
Federal Grant-Child Care	(37,439)	
Grant from P.R. Department of Recreation and Sports	(66,500)	
Grant from P.R. Solid Waste Authority	(343,995)	
Christmas Bonus Reimbursement (prior year)	<u>(165,179)</u>	(2,101,670)
Proceeds from general obligation bonds are other financing sources in the governmental funds, but an increase of long-term liabilities in the Statement of Net Assets:		
		(3,610,000)
Net proceeds from note payable to the P.R. Retirement System are other financing sources in the governmental funds, but an increase of long term liabilities in the Statement of Net Assets:		
		(195,732)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Expenditures for other assets	50,270	
Matured bonds principal payments-Debt Service Fund (net change)	(325,000)	
Matured debts-General Fund (net change)	<u>(20,000)</u>	(294,730)
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	1,132,000	
Other long term liabilities	<u>766,774</u>	1,898,774
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	29,021	
Amortization of bond issuance costs	<u>(2,114)</u>	26,907
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	(191,586)	
Municipal solid waste landfill	(219,232)	
Christmas bonus	(360,253)	
Accrued interest (net change)	(146)	
Amortization of deferred loss on early retirement of debt	<u>(3,029)</u>	(794,246)
Change in net assets of governmental activities:		\$ 8,092,180

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 and 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 and sales and use 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.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues 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 Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 fund 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 through the provisions of comprehensive health, educational, nutritional, social and other services.

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.

Commonwealth Legislature Resolutions Fund: The Commonwealth Legislative Resolutions Fund is used to account for grants from the Commonwealth's Legislature.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 and sales and use 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 and investments and restricted cash with fiscal agents*

Cash consist of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. Investments consist of nonnegotiable certificates of deposits with original maturity of more than three months. 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 investments 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".

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 \$316,571 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:

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

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.
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.
Advances:	Represents the non-current portion of interfund loans.

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.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. *Interfund transactions*

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

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:

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
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
49	Accounting and Financial Reporting for Pollution Remediation Obligations	June 30, 2009

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
50 Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27	June 30, 2008
51 Accounting and Financial Reporting for Intangible Assets	June 30, 2010

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.

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 \$21,660,006.

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 \$3,158,411.

NOTE C – INVESTMENT HELD WITH FISCAL AGENT

The investment held with fiscal agent consists of a non-participating investment contract (non-rated guaranteed investment contract, "GIC"). This represents the investment of the undisbursed proceeds of the \$3,010,000 general obligation bond under custody of GDB, the Municipality's fiscal agent, pursuant to the bond purchase agreement. The GIC, with an outstanding balance of \$2,806,114 as of June 30, 2007 earns interest at a variable rate (LIBOR minus .125%, 5.235% as of June 30, 2007) and matures on November 3, 2008. GIC outstanding balance is valued at cost.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D – RECEIVABLES

Accounts receivable as of June 30, 2007 follows:

	Amount
Construction permits	\$ 205,024
Healthcare providers billings	168,004
Interest	144,113
	\$ 517,141

Certain amounts receivable are recorded as deferred revenue in the governmental funds statements since they are not available as required by current standards. See related note H.

NOTE E – DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2007 follows:

	Commonwealth Government	Federal Government
P.R. Department of Education	\$ 105,000	\$ -
P.R. Department of Treasury - Christmas bonus reimbursement	167,326	-
P.R. Department of Justice - Public Order Code Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	165,691	-
	61,704	-
P.R. Department of Health	42,690	-
P.R. Department of Labor	44,466	-
P.R. Department of Transportation	20,831	-
Office of Commissioner of Municipal Affairs – Commonwealth Legislature Resolutions	32,590	-
Office of Commissioner of Municipal Affairs – CDBG	-	1,154,160
U.S. Department of Housing and Urban Development – CDBG	-	1,650,888
U.S. Department of Health and Human Services – Head Start	-	119,879
P.R. Department of Family – Child Care	-	166,813
P.R. Department of Housing – Home Investment Partnership Program (HOME)	-	303,150
Others	22,682	25,505
	\$ 662,980	\$ 3,420,395

See note H for detail of amounts due from governmental entities recorded as deferred revenue.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E – DUE FROM (TO) GOVERNMENTAL ENTITIES – Continued

2. Amounts due to governmental entities as of June 30, 2007 follows:

	Commonwealth Government
P.R. Aqueduct and Sewer Authority (PRASA)	\$ 22,633
P.R. Employees Retirement System	72,768
P.R. Department of Treasury	163,458
P.R. General Services Administration	30,967
Others	6,032
	\$ 295,858

NOTE F - INTERFUND TRANSACTIONS

1. Due from/to other funds:

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

Receivable Fund	Payable Fund	Amount
General Fund	Major funds:	
	CDBG	\$ 69,675
	Head Start	123,586
	Debt Service	32,554
	Other governmental funds:	
	Child Care	207,351
	Traffic Safety Commission	179,147
	TANF	175,712
	Section 8 HCV	166,470
	Home Investment Program	40,417
	P.R. Dept. of Transportation	36,838
	Others	18,753
		\$ 1,050,503
Other governmental funds:	Major funds:	
OGP	C. Legislature Resolutions	\$ 30,026
WIA	General Fund	9,069
		\$ 39,095

2. Advances to(from) other funds:

Advances to (from) other funds in the amount of \$1,307,498 represent long term advances by the Commonwealth Legislature Resolutions Fund to the General Fund in previous years to cover operational expenditures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F - INTERFUND TRANSACTIONS - Continued

3. Transfers in (out):

Transfers between individual funds were made for operational purposes. Transfers includes (1) 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 (2) interest in Commonwealth Legislature Resolutions funds which is transferred to the general fund and, (3) principal and interest payments of long term debt transferred from the general fund to the debt service fund.

NOTE G - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2007 is as follows:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,055,589	\$ -	\$ -	\$ 4,055,589
Construction in progress	<u>5,051,706</u>	<u>1,655,098</u>	<u>3,082,383</u>	<u>3,624,421</u>
Total capital assets not being depreciated:	9,107,295	1,655,098	3,082,383	7,680,010
Capital assets, being depreciated:				
Buildings and building improvements	12,591,971	3,151,512	-	15,743,483
Leasehold improvements	505,233	-	-	505,233
Infrastructure	10,507,344	1,286,202	194,429	11,599,117
Vehicles, machinery and equipment	<u>6,930,937</u>	<u>670,424</u>	<u>138,499</u>	<u>7,462,862</u>
Total capital assets being depreciated	30,535,485	5,108,138	332,928	35,310,695
Less accumulated depreciation for:				
Buildings and building improvements	1,499,904	438,136	-	1,938,040
Leasehold improvements	45,930	37,892	-	83,822
Infrastructure	1,580,896	196,856	37,317	1,740,435
Vehicles, machinery and equipment	<u>2,528,839</u>	<u>527,574</u>	<u>36,384</u>	<u>3,020,029</u>
Total accumulated depreciation	5,655,569	1,200,458	73,701	6,782,326
Total capital assets being depreciated, net	<u>24,879,916</u>	<u>3,907,680</u>	<u>259,227</u>	<u>28,528,369</u>
Governmental activities capital assets, net	<u>\$ 33,987,211</u>	<u>\$ 5,562,778</u>	<u>\$ 3,341,610</u>	<u>\$ 36,208,379</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G – CAPITAL ASSETS - Continued

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

Governmental activities:

General government	\$	59,794
Public works and sanitation		533,636
Public safety		67,339
Culture and recreation		429,885
Health		32,464
Welfare and community development		52,799
Education		24,541
 Total depreciation expense, governmental activities	 \$	 <u>1,200,458</u>

NOTE H – DEFERRED REVENUES

Deferred revenues - Commonwealth Government and Other 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
P.R. Department of Treasury – Christmas bonus reimbursement	\$ 167,326	\$ -	\$ -
P.R. Department of Education	105,000	-	-
P.R. Department of Labor	44,466	-	-
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	31,549	-	-
Office of Commissioner of Municipal Affairs –CDBG	-	1,155,528	-
U.S. Department of Housing and Urban Development – CDBG	-	1,586,276	-
P.R. Department of Family – Child Care	-	108,341	-
P.R. Department of Housing Home Investment Partnership Program (HOME)	-	90,967	-
Construction permits	-	-	120,470
Healthcare providers billings	-	-	92,015
Interest	-	-	24,096
Miscellaneous	26,837	10,276	2,964
	<u>\$ 375,178</u>	<u>\$ 2,951,388</u>	<u>\$ 239,545</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – 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, 2007:

	<u>Balance at July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2007</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 5,416,024	\$ 3,610,000	\$ 1,132,000	\$ 7,894,024	\$ 214,000
Note payable to CRIM- LIMS	322,594	-	51,190	271,404	54,281
Note payable to CRIM -Financing of delinquent accounts	131,846	-	59,838	72,008	2,880
Note payable to PR Department of Labor	214,078	-	72,933	141,145	81,526
Note payable to P.R. Solid Waste Authority	221,366	-	51,130	170,236	35,331
Note Payable to P.R. Treasury Department	728,622	-	131,557	597,065	138,287
Note payable to ERS	-	195,732	-	195,732	81,178
Landfill Obligation	4,138,125	239,232	-	4,377,357	-
Compensated absences	1,910,622	353,676	162,090	2,102,208	159,909
Christmas bonus	355,630	360,253	355,630	360,253	360,253
Claims and judgments	10,883	-	10,883	-	-
Payable to CRIM- excess of property tax advances over actual collections	33,613	38,807	33,613	38,807	-
	<u>\$ 13,483,403</u>	<u>\$ 4,797,700</u>	<u>\$ 2,060,864</u>	<u>\$ 16,220,239</u>	<u>\$ 1,127,645</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – 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, 2007 amount to \$7,894,024. 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, 2007 follows:

	<u>Outstanding Amount</u>
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%	\$ 380,000
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%	349,024
2000 general obligation bonds of \$305,000 due in annual installments ranging from \$20,000 to \$40,000 through January 1, 2006; bearing interest at rates ranging from 2.70% to 7.81% (3.21% at June 30, 2007)	150,000
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% (6.37% at June 30, 2007)	3,160,000
2006 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% (4.17% at June 30, 2007)	245,000
2006 general obligation bonds of \$600,000 due in annual installments ranging from \$25,000 to \$60,000 through July 1, 2021; bearing interest rates ranging from 6.60% to 7.25% (6.62% at June 30, 2007)	600,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG TERM DEBT – Continued

2006 general obligation bonds of \$3,010,000 due in annual installments ranging from \$40,000 to \$260,000 through July 1, 2031; bearing interest rates ranging from 5.69% to 6.75% (5.69% at June 30, 2007)

	3,010,000
	\$ 7,894,024

In order to achieve debt service savings, during fiscal year 2006-2007 the Municipality issued general obligation refunding bonds of \$3,010,000 to currently refund a 1993 special obligation note of \$505,000 with an interest rate ranging from 4.37% to 8.00% and a 1999 special obligation note of \$1,160,000 with an interest rate ranging from 5.00% to 7.81%. The new bonds bear interest at rates ranging from 5.69% to 6.75% (5.69% at June 30, 2007). The reacquisition price of the old debt exceeds the net carrying amount of the old debt by \$3,029. The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2007 follows:

June 30,	Principal	Interest
2008	\$ 214,000	\$ 504,797
2009	226,000	506,026
2010	242,000	490,690
2011	259,000	474,138
2012	231,000	458,498
2013-2017	1,457,000	2,018,533
2018-2022	1,969,000	1,429,563
2023-2027	2,136,024	687,449
2028-2031	900,000	154,158
2032-2036	260,000	-
Totals	\$ 7,894,024	\$ 6,723,852

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 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:

\$ 271,404

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG TERM DEBT – Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	54,281	15,356
2009	57,559	12,075
2010	61,034	8,599
2011	64,719	4,914
2012	33,811	1,006
Totals	<u>\$ 271,404</u>	<u>\$ 41,950</u>

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 were 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 was credited to the loan principal. After the 5 year period the loan outstanding balance was restructured for a 25 years period. Amount is 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:

\$ 72,008

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,880	\$ 4,434
2009	2,880	4,254
2010	2,880	4,075
2011	2,880	3,897
2012	2,880	3,717
2013-2017	14,402	15,900
2018-2022	14,402	11,421
2023-2027	14,402	6,942
2028-2032	14,402	2464
Totals	<u>\$ 72,008</u>	<u>\$ 57,104</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG TERM DEBT – Continued

Note payable to Puerto Rico Department of Labor – On February 16, 2006, 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:

\$ 141,145

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 81,526	\$ 11,696
2009	59,619	2,529
Totals	<u>\$ 141,145</u>	<u>\$ 14,225</u>

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, 2006 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:

\$ 170,236

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 35,331	\$ 4,669
2009	36,360	3,640
2010	37,419	2,581
2011	38,509	1,491
2012	22,617	327
Totals	<u>\$ 170,236</u>	<u>\$ 12,708</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG TERM DEBT – Continued

Note Payable–Puerto Rico Treasury Department- On February 16, 2007 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, 2007 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:

\$ 597,065

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 138,287	\$ 26,713
2009	145,362	19,638
2010	152,799	12,201
2011	160,617	4,383
Totals	\$ 597,065	\$ 62,935

Note payable to Employee’s Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). – On June 29, 2007 the Board of Trustees of the Employee’s Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS) approved Resolution No. 2007-02 authorizing the ERS to establish payment plans with employers related to the application of certain “Special Laws” issued by the Commonwealth Government. Those Special Laws granted increases in pensions to retired employees of the Municipality. This obligation was recognized by the Municipality prior to June 30, 2007. On November 30, 2007 the Municipality refinanced this debt on a long term basis through a \$201,060 non-interest bearing note with the ERS. The note has an imputed interest rate is 6.48% and was recorded at its present value of \$195,732 net of an unamortized discount of \$14,328. The note is payable in annual installments of \$63,018 (including interest, is due on February 26, 2010 and will be repaid with unrestricted funds. Debt service requirements in future years are as follows:

\$ 195,732

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG TERM DEBT – Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 81,178	\$ 2,846
2009	55,444	7,574
2010	59,110	3,908
Totals	<u>\$ 195,732</u>	<u>\$ 14,328</u>

Landfill obligation – represent the outstanding balance of the estimated liability for landfill closure and post-closure care costs, based on a 91% usage of the landfill. The total estimate for these costs amounts to \$4,800,000 as of June 30, 2007. \$ 4,377,357

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 repaid with unrestricted funds. \$ 2,102,208

Christmas Bonus – represent the accrued portion corresponding to fiscal year 2006-2007 of the Christmas bonus to be paid in December 2007. \$ 360,253

Payable to CRIM – represents the balance owed to CRIM at June 30, 2007 for excess of advances of property tax and other subsidies over final amount of property tax collections for the fiscal year June 30, 2007. 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). \$ 38,807

NOTE J – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J – 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 \$4,377,357 as of June 30, 2007, which is based on a 91% usage of the landfill. It is estimated that an additional \$422,643 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, 2007. 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, 2007, the Municipality has not made contributions to finance closure and post-closure care costs.

NOTE K – 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. Total tax rates in force as of June 30, 2007 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	2.00%	2.00%
Total tax rate:	<u>7.03%</u>	<u>9.03%</u>
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u><u>6.83%</u></u>	<u><u>8.83%</u></u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE K – 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. For the fiscal year 2006-2007 the CRIM performed the preliminary settlement and determined that that Municipality has a net debt of \$38,807. This amount is recorded as long term debt.

NOTE L – 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, 2007 the tax rates were as follows:

Financial business – 1.50% of gross revenues
Other organizations –
 Up to \$200,000 - .40% of gross revenues
 Over \$200,000 - .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 \$1,951,879 are recorded as deferred revenues.

NOTE M – SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5% This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE M – SALES AND USE TAXES - Continued

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 and use 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 and use 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.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

Municipal sales and use tax receivable of \$270,472 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts.

NOTE N – INTERGOVERNMENTAL REVENUES

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

	<u>Amount</u>
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 4,612,080
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,480,096
Reimbursement from Commonwealth Government of Law 52 and Law 82 program expenditures	709,701
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	283,163
Reimbursement from Commonwealth government – other programs expenditures	273,136
	<u>\$ 7,358,176</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE O – 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 and 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.

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE O – RETIREMENT PLAN – Continued

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:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2007	\$ 225,455	\$ 108,140
2006	\$ 236,085	\$ 90,305
2005	\$ 243,239	\$ 77,808

NOTE P – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note O, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year ended, costs related to these post employment benefits amounted to \$65,409. Payments of previous and current year's benefits were financed through a note payable to the ERS. See related note I.

NOTE Q – 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 \$242,674. 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, 2007 of approximately \$4,336,132 for construction, improvements or renovation of certain capital assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE R – CONTINGENCIES

1. *Federal and Commonwealth grants*

Projects financed by Federal and Commonwealth's 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 and certain cases whereby the legal counsel has not determined an outcome. 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.

3. *Claim from P.R. Treasury Department*

The Municipality was informed by the P.R. Department of Treasury (PRTD) about a \$746,638 debt from current and prior year's tax periods. The Municipality's management denies this claim based on its evidence of compliance with forms submissions and related payments. The Municipality's management had met personnel of the PRTD since January 2006 but no outcomes were communicated to the Municipality. It is the Municipality's opinion that no material liabilities will arise as a result of this claim. Furthermore, the Municipality has a claim against the PRDT for a total amount of \$382,742 for excess collections retained by PRTD related to principal and interest of payment plans already paid by the Municipality in previous fiscal periods. The final outcome of these matters is undeterminable.

4. *Claim from IRS*

Subsequent to June 30, 2007 the U.S. Department of Treasury, Internal Revenue Service (IRS) informed to the Municipality the assessment of a civil penalty for failure to file W-2PRs and W3PR pertaining to the period ended on December 31, 2004 in the amount of \$668,574. Management responded that the situation was caused due to problems encountered in processing the electronic files of forms W-2PRs submitted by the Municipality to the IRS for the year 2004. The Municipality requested the IRS to waive the civil penalty taking into consideration that payments to IRS were not defaulted, information was not intentionally withheld and the situation comes from difficulties in assessing and submitting electronic files. It is the Municipality's opinion that no material liabilities will arise as a result of this claim. The final outcome of this matter is undeterminable.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE S - FUND BALANCES RESTATEMENT

The following table disclosed the change to the fund balance of the general and other governmental fund at beginning of year as previously reported in the statement of revenues, expenditures and changes in fund balances. The changes resulted after a management decision to reclassify the Commonwealth Legislature Resolution Fund as a Major Fund and certain special funds as other governmental funds. Previously, these funds were included as part of the general fund of the Municipality. The beginning balances have been restated as follows:

	Fund balance,	
	General Fund	Other Governmental Funds
Balance at beginning of year, as previously reported:	\$ 12,953,890	\$ 470,881
Reclassification of funds	(5,135,650)	624,877
Balance at beginning of year, as restated:	\$ 7,818,240	\$ 1,095,758

NOTE T – FUND BALANCE DEFICITS

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

	Amount
Major Fund: CDBG	\$ 172,584
Other Governmental Funds: Child Care	\$ 108,341
Home Investment Program	\$ 90,967
DTOP	\$ 36,838
Traffic Safety Commission	\$ 10,276

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 these reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE U – SUBSEQUENT EVENTS

1. *Sales and use tax implementation*

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 (“Act 80”) which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (“GDB”), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a “Municipal Development Fund” to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a “Municipal Redemption Fund” to finance loans to Municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a “Municipal Improvement Fund” to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth’s Legislature.

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80.

2. *Issuance of U.S. Government Guaranteed Note*

Subsequent to June, 30, 2007 the Municipality obtain the approval of a \$4,850,000 loan for capital improvements, guaranteed by the Federal Government through a contract for Loan Guarantee Assistance under Section 108 of the Housing and community Act of 1974, as amended. The notes, which bear interest at LIBOR plus .20%, will due on August 1, 2026 and will be repaid from future appropriation of funds from the Community Development Grant Program.

REQUIRED SUPPLEMENTARY INFORMATION

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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2007

	Budgeted amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget Positive (Negative)
Revenues:				
Taxes:				
Property taxes	\$ 4,214,922	\$ 4,417,131	\$ 5,026,573	\$ 609,442
Municipal license taxes	2,097,621	2,171,272	2,205,503	34,231
Sales and use taxes	2,328,021	3,096,365	2,125,731	(970,634)
Intergovernmental	4,733,272	4,877,081	4,933,908	56,827
Fees, fines and charges for services	718,812	1,405,538	1,491,306	85,768
Interest	100,000	247,604	432,949	185,345
Other	25,000	137,753	140,401	2,648
Total revenues	<u>14,217,648</u>	<u>16,352,744</u>	<u>16,356,371</u>	<u>3,627</u>
Expenditures:				
Current:				
General government	6,445,124	6,902,675	6,615,688	286,987
Public works and sanitation	2,314,302	2,393,454	2,267,553	125,901
Public safety	1,017,156	998,473	905,256	93,217
Culture and recreation	536,936	562,761	530,482	32,279
Health	604,877	606,120	603,311	2,809
Housing, welfare and community development	1,063,354	1,040,078	944,538	95,540
Total expenditures	<u>11,981,749</u>	<u>12,503,561</u>	<u>11,866,828</u>	<u>636,733</u>
Excess of revenues over expenditures	<u>2,235,899</u>	<u>3,849,183</u>	<u>4,489,543</u>	<u>640,360</u>
Other financing sources (uses):				
Transfers out	2,235,899	3,849,183	2,599,556	1,249,627
Total other financing sources (uses)	<u>(2,235,899)</u>	<u>(3,849,183)</u>	<u>(2,599,556)</u>	<u>1,249,627</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,889,987</u>	<u>\$ 1,889,987</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

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

June 30, 2007

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 1,889,987
Budget to GAAP differences:	
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	3,966,617
Non budgeted funds recorded as expenditures for financial reporting:	(4,502,185)
Non budgeted transfers in:	2,212,431
Non budgeted transfers out:	(687,050)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	680,194
Expenditures recorded in budgetary basis but not for financial reporting purposes:	363,791
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(30,843)
Revenues recorded in budgetary basis but not for financial reporting purposes:	(87,436)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	106,165
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(115,413)
Net change in fund balance (GAAP basis):	<u>\$ 3,796,258</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

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

June 30, 2007

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:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

COMBINED BALANCE SHEET-
SPECIAL FUNDS IN GENERAL FUND
JUNE 30, 2007

<u>Assets</u>	<u>General Fund (01)</u>	<u>Special Funds Unreserved-GF</u>	<u>Special Funds Designated-GF</u>	<u>Special Funds Reserved</u>	<u>Subtotal</u>	<u>Eliminations</u>		<u>Total General Fund</u>
Cash and investments	\$ 7,168,289	\$ 2,900,951	\$ 3,310,752	\$ -	\$ 13,379,992	\$ -	\$ -	\$ 13,379,992
Receivables, net								
Sales and use taxes	270,472			-	270,472			270,472
Other	302,184	170,544		-	472,728			472,728
Due from:								
Commonwealth Government	448,910	107,987		-	556,897			556,897
Other funds	2,278,300		400,000	-	2,678,300		1,627,797	1,050,503
Inventories and Supplies		316,571		-	316,571			316,571
Restricted assets:								
Cash				93,653	93,653			93,653
Other assets	115,428			-	115,428			115,428
Total assets	\$ 10,583,583	\$ 3,496,053	\$ 3,710,752	\$ 93,653	\$ 17,884,041	\$ -	\$ 1,627,797	\$ 16,256,244
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 303,984	\$ 115,058	\$ 102,287	\$ -	\$ 521,329	\$ -	\$ -	\$ 521,329
Due to:								
Commonwealth Government	295,858			-	295,858			295,858
Other funds		1,417,556	210,242	9,068	1,636,866	1,627,797		9,069
Advances from other funds	1,307,498			-	1,307,498			1,307,498
Deferral revenues								
Municipal license taxes	1,951,879			-	1,951,879			1,951,879
Commonwealth Government	278,331	65,297		-	343,628			343,628
Other	120,470	92,915		-	212,485			212,485
Total liabilities	4,258,020	1,689,926	312,529	9,068	6,269,543	1,627,797		4,641,746
Fund balance:								
Reserved for:								
Inventories		316,571		-	316,571			316,571
Encumbrances	308,940			-	308,940			308,940
Other specific purposes				84,585	84,585			84,585
Unreserved:								
Designated for future expenditures			3,398,223	-	3,398,223			3,398,223
Undesignated	6,016,623	1,489,556		-	7,506,179			7,506,179
Total fund balances	6,325,563	1,806,127	3,398,223	84,585	11,614,498			11,614,498
Total liabilities and fund balances	\$ 10,583,583	\$ 3,496,053	\$ 3,710,752	\$ 93,653	\$ 17,884,041	\$ 1,627,797	\$ 1,627,797	\$ 16,256,244

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELLA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
SPECIAL FUNDS IN GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2007

	General Fund (01)	Special Funds Unreserved-GF	Special Funds Designated-GF	Special Funds Reserved	Subtotal	Eliminations		Total General Fund
Revenues:								
Taxes:								
Property taxes	\$ 3,644,980	\$ -	\$ -	\$ -	\$ 3,644,980	\$ -	\$ -	\$ 3,644,980
Municipal license taxes	2,205,503	-	-	-	2,205,503	-	-	2,205,503
Sales and use taxes	1,823,078	555,294	-	-	2,378,372	-	-	2,378,372
Intergovernmental:								
Commonwealth government	6,375,339	903,408	-	79,429	7,358,176	-	-	7,358,176
Fees, fines and charges for services	1,545,748	2,376,872	-	-	3,922,620	-	-	3,922,620
Interest	328,125	50,614	-	-	378,739	-	-	378,739
Other	324,151	1,000	-	-	325,151	-	-	325,151
Total revenues	16,246,924	3,887,188	-	79,429	20,213,541	-	-	20,213,541
Expenditures:								
Current:								
General government	6,816,394	593,589	96,833	-	7,506,816	-	-	7,506,816
Public works and sanitation	2,260,351	50,270	260,854	-	2,571,475	-	-	2,571,475
Public safety	904,891	-	-	-	904,891	-	-	904,891
Culture and recreation	529,570	6,079	-	-	535,649	-	-	535,649
Health	603,311	2,386,634	-	-	2,989,945	-	-	2,989,945
Housing, welfare and community development	944,538	-	9,881	44,865	999,284	-	-	999,284
Capital outlays	6,412	191,503	860,002	1,675	1,059,592	-	-	1,059,592
Total expenditures	12,065,467	3,228,075	1,227,570	46,540	16,567,652	-	-	16,567,652
Excess (deficiency) of revenues over expenditures	4,181,457	659,113	(1,227,570)	32,889	3,645,889	-	-	3,645,889
Other financing sources (uses):								
Proceeds from note payable - P.R. Employees Retirement System	210,060	-	-	-	210,060	-	-	210,060
Payment of increase in retirement plan benefits under Special Laws	(195,732)	-	-	-	(195,732)	-	-	(195,732)
Discount on note payable - P.R. Employees Retirement System	(14,328)	-	-	-	(14,328)	-	-	(14,328)
Transfers in	762,043	528,100	1,684,331	-	2,974,474	2,818,150	-	156,324
Transfers out	(2,137,055)	(605,719)	(81,331)	-	(2,824,105)	-	(2,818,150)	(5,955)
Total other financing sources (uses)	(1,375,012)	(77,619)	1,603,000	-	150,369	2,818,150	(2,818,150)	150,369
Net change in fund balances	2,806,445	581,494	375,430	32,889	3,796,258	2,818,150	(2,818,150)	3,796,258
Fund balances at beginning of year, as restated	3,519,118	1,224,633	3,022,793	51,696	7,818,240	-	-	7,818,240
Fund balances at end of year	\$ 6,325,563	\$ 1,806,127	\$ 3,398,223	\$ 84,585	\$ 11,614,498	\$ 2,818,150	\$ (2,818,150)	\$ 11,614,498

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET INFORMATION
JUNE 30, 2007**

<u>Line Item Number</u>	ASSETS	Section 8 Housing Choice Vouchers <u>14,871</u>
	Current Assets:	
	Cash:	
111	Cash - unrestricted	\$ 260,595
113	Cash - other restricted	86,634
100	Total cash	<u>347,229</u>
150	Total Current Assets	<u>347,229</u>
	Noncurrent Assets:	
	Fixed assets:	
164	Furniture, equipment & machinery - administration	20,848
166	Accumulated depreciation	(6,118)
160	Total fixed assets, net of accumulated depreciation	<u>14,730</u>
180	Total Noncurrent Assets	<u>14,730</u>
190	TOTAL ASSETS	<u><u>\$ 361,959</u></u>
	LIABILITIES AND EQUITY	
	LIABILITIES:	
	Current Liabilities:	
312	Accounts payable < 90 days	\$ 2,089
322	Accrued compensated absences - current portion	3,577
345	Other current liabilities	18,096
347	Inter-program - due to	166,470
310	Total Current Liabilities	<u>190,232</u>
300	TOTAL LIABILITIES	<u>190,232</u>
	EQUITY	
508.1	Invested in Capital Assets, Net of Related Debt	14,730
511.1	Restricted Net Assets	84,295
512.1	Unrestricted Net Assets	72,702
513	TOTAL EQUITY/NET ASSETS	<u>171,727</u>
600	TOTAL LIABILITIES and EQUITY/NET ASSETS	<u><u>\$ 361,959</u></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
FISCAL YEAR ENDED JUNE 30, 2007**

<u>Line Item Number</u>		<u>Section 8 Housing Choice Vouchers 14,871</u>
	REVENUES:	
706	HUD PHA operating grants	\$ 370,072
715	Other revenue	13,270
700	TOTAL REVENUES	383,342
	EXPENSES:	
	Administrative:	
911	Administrative salaries	34,820
912	Auditing fees	5,000
914	Compensated absences	127
915	Employee benefit contributions- administrative	8,760
916	Other operating- administrative	669
	Subtotal	49,376
	General expenses:	
962	Other General Expenses	841
	Subtotal	841
969	TOTAL OPERATING EXPENSES	50,217
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	333,125
973	Housing assistance payments	292,517
974	Depreciation expense	1,251
900	TOTAL EXPENSES	343,985
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 39,357
MEMO account information		
1103	Beginning equity	141,857
1104	Prior period adjustments, equity transfers and correction of errors	(9,487)
1117	Administrative Fee Equity	87,432
1118	Housing Assistance Payments Equity	84,295
1120	Unit months available	1,032
1121	Number of unit months leased	908

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE

June 30, 2007

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (note B)</u>	<u>Pass-Through Entity Identifying Number (note C)</u>	<u>Federal Expenditures (note A)</u>
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	CCC-205	<u>\$ 70,794</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant - Entitlement Grants	14.218	N/A	1,456,059
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	173,232
Passed through the P.R. Department of Housing: Home Investment Partnership Program	14.239	N/AV	758,245
Section 8 Housing Choice Vouchers	14.871	N/A	<u>348,644</u>
Subtotal U.S. Department of Housing and Urban Development			<u>2,736,180</u>
<u>U.S. Department of Labor</u>			
Passed through the Northwestern Consortium: WIA Youth Activities	17.259	N/AV	<u>1,779</u>
<u>U.S. Department of Justice</u>			
Passed through the PR Department of Justice: Edward Byrne Justice Assistance Program	16.738	2005-DJ-BX-0072	<u>12,745</u>
<u>U.S. Department of Transportation - National Highway Traffic Safety Administration</u>			
Passed through the P.R. Department of Transportation - (Traffic Safety Commission) State and Community Highway Safety	20.600	N/AV	<u>52,098</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	N/AV	129,973
Head Start Program	93.600	N/A	<u>678,149</u>
Subtotal U.S. Department of Health and Human Services			<u>808,122</u>
Total Expenditures of Federal Awards			<u>\$ 3,681,718</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

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	\$ -	\$ -	\$ 70,794
14.218	1,456,059	-	-
14.228	173,232	-	-
14.239	-	-	758,245
14.871	-	-	348,644
17.259	-	-	1,779
16.738	-	-	12,745
20.600	-	-	52,098
93.575	-	-	129,973
93.600	-	678,149	-
Total federal awards expenditures	<u>1,629,291</u>	<u>678,149</u>	<u>1,374,278</u>
Total nonfederal awards expenditures	<u>-</u>	<u>-</u>	<u>1,486,262</u>
Total expenditures, fund statements	<u>\$ 1,629,291</u>	<u>\$ 678,149</u>	<u>\$ 2,860,540</u>



ORTIZ, RIVERA, RIVERA & CO.

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**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, 2007, which collectively comprise the Municipality of Isabela's basic financial statements, and have issued our report thereon dated December 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Isabela's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that

there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

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

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

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, Rivera, Rivera & Co.

San Juan, Puerto Rico
December 12, 2007

The stamp 2299728 was affixed to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

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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, 2007. 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's compliance with those requirements.

In our opinion, 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as questioned costs as item 07-1.

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

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

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

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

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.

San Juan, Puerto Rico
December 12, 2007

Ortiz, Rivera, Rivera & C

The stamp 2299729 was affixed to the original of this report.



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

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 significant deficiencies 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 no significant deficiencies 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 an unqualified opinion.
- f. 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:
 - Community Development Block Grants - CFDA No. 14.218
 - Head Start - CFDA No. 93.600
 - Section 8 Housing Choice Vouchers - CFDA No. 14.871
- 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

Section 8 Housing Choice Voucher - CFDA No. 14.871

Condition 07-1

The program did not adjust the utility data schedule within the last twelve months.

Cause

The program has not realized the review of the utility data schedule since various years.

Effect

The program is not in compliance with federal regulations.

Criteria

The Municipality must maintain an up-to-date utility allowance schedule. Then, the Municipality must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since last time was revised (24 CFR Section 985.3)

Recommendation

The program should update the utility review and should be adjusted as soon as possible.

Management' Response

Once the finding was notified to our management in an internal review process, we instructed our Section 8 Program staff to commence a survey within the Isabela population and Section 8 participants in order to collect the utilities consumptions

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

data. Such preliminary survey was performed during the months of September and December 2007. The preliminary computation for the utility was completed but it has not been adjusted to the budgetary limitation of the program and participants contributions. Also a request of utilities consumption and charges have been made to the public utilities corporations in order to corroborate utilities service increased cost and document the analysis. Such preliminary computations are under evaluation.

Corrective Action Plan

Management of the program has been instructed to follow the program requirement regarding this and any other compliance. The Finance and Section 8 Program Director is under direct supervision to the program personnel in charge of the study for the final completion and final submission to HUD of the Utility Data Schedule. In addition annual up-dates have been programmed for the months of November of each year if there is a change above the 10% cost benchmark. This monitoring will be performed by program staff.

Final Scheduled Completion Date and Person in-Charge

August 31, 2008, Mrs. Rosario Villanueva, Program Director and Mildred Bonilla, Program Analyst

Questioned Costs

None

**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, 2007**

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.

**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, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
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.	Condition was corrected.
CDBG CFDA No. 14.218	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, 2007 were submitted after the required 15 labor days.	Condition was corrected.
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).	Condition was corrected.
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	Condition was not observed.

**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, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	do not have the prevailing wage rate clause updated. In addition, some of the contracts selected do not have the certified payrolls.	
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 was corrected.

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

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

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

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

RETURN TO

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

PART I

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

<p>1. Fiscal period ending date for this submission</p> <table border="1"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> </tr> <tr> <td>06</td> <td>30</td> <td>2007</td> </tr> </table> <p>Fiscal Period End Dates Must Be In 2004, 2005, or 2006</p>	Month	Day	Year	06	30	2007	<p>2. Type of Circular A-133 audit</p> <p>1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit</p>
Month	Day	Year					
06	30	2007					
<p>3. Audit period covered</p> <p>1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - <input type="text"/> Months</p>	<p>4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse</p>						

5. Auditee Identification Numbers

<p>a. Primary Employer Identification Number (EIN)</p> <p>66 - 0433796</p>	<p>b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p>c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.</p>
<p>d. Data Universal Numbering System (DUNS) Number</p> <p><input type="text"/> - <input type="text"/> - <input type="text"/></p>	<p>e. Are multiple DUNS covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</p>

6. AUDITEE INFORMATION

a. Auditee name	
MUNICIPALITY OF ISABELA	
b. Auditee address (Number and street)	
PO BOX 507	
City	
ISABELA	
State	ZIP + 4 Code
PR	00662-0507
c. Auditee contact Name	
CPA MARISOL ROSA	
Title	
FINANCE DIRECTOR	
d. Auditee contact telephone	
(787) 872-2100	
e. Auditee contact FAX	
(787) 830-8045	
f. Auditee contact E-mail	

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name	
ORTIZ, RIVERA, RIVERA & CO.	
b. Auditor address (Number and street)	
SUITE 152 PO BOX 70250	
City	
SAN JUAN	
State	ZIP + 4 Code
PR	00936-7250
c. Auditor contact Name	
LUIS RIVERA	
Title	
AUDIT PARTNER	
d. Auditor contact telephone	
(787) 756-8524	
e. Auditor contact FAX	
(787) 274-0562	
f. Auditor contact E-mail	
LRIVERA@CPAORR.COM	

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

Signature of certifying official	Date
<i>Marisol Rosa Acevedo</i>	3 / 12 / 2008
Printed Name of certifying official	
Marisol Rosa Acevedo	
Printed Title of certifying official	
Directora de Finanzas	

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

Signature of auditor	Date
<i>Ortiz, Rivera, Rivera & Co</i>	3 / 10 / 08

PART II

FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

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

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

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

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

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

PART III

FEDERAL PROGRAMS (To be completed by auditor)

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

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

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

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

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

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

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

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

- | | | | |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input checked="" type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 64 <input type="checkbox"/> Education | 15 <input type="checkbox"/> Interior | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 61 <input type="checkbox"/> Energy | 16 <input type="checkbox"/> Justice | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 17 <input type="checkbox"/> Labor | | <input type="text"/> |
| | 09 <input type="checkbox"/> Legal Services Corporation | | <input type="text"/> |

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

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

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

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

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

10. AUDIT FINDINGS

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)		
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 70,794 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	4 .218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 1,456,059 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM-STATE PROGRAM	\$ 173,232 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	4 .239	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOME INVESTMENT PROGRAM	\$ 758,245 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION HOUSING CHOICE VOUCHERS	\$ 348,644 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	N	07-1
1	7 .259	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA YOUTH ACTIVITIES	\$ 1,779 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	6 .738	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EDWARD BYRNE JUSTICE PROGRAM	\$ 12,745 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
2	0 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE AND COMMUNITY HIGHWAY SAFETY	\$ 52,098 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT PROGRAM	\$ 129,973 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START	\$ 678,149 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 3,681,718 .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



Conf. 983 ✓

OFICINA DEL COMISIONADO
DE SERVICIOS MUNICIPALES

208 MAR 25 AM 10:52

RECIBIDO
UNIDAD DE CREDITO

Hon. Carlos O. Delgado Altieri
Alcalde

Secretaría de Administración
Oficina de Finanzas y Presupuesto

Corrective Action Plan For the
2007 Single Audit Report

Description	
Finding number:	No. 07-1
Program and CFDA number:	Section 8 Housing Choice Voucher – CFDA No. 14.871
Condition:	Program did not adjust the utility data schedule within the last twelve months
Management Action:	Once the finding was notified to our management in an internal review process, we instructed our Section 8 Program staff to commence a survey within the Isabela population and Section 8 participants in order to collect the utilities consumptions data. Such preliminary survey was performed during the months of September and December 2007. The preliminary computation for the utility was completed but it has not been adjusted to the budgetary limitation of the program and participants contributions. Also a request of utilities consumption and charges have been made to the public utilities corporations in order to corroborate utilities service increased cost and document the analysis. Such preliminary computations are under evaluation.
Corrective action plan:	Management of the program has been instructed to follow the program requirement regarding this and any other compliance. The Finance and Section 8 Program Director is under direct supervision to the program personnel in charge of the study for the final completion and final submission to HUD of the Utility Data Schedule. In addition annual up-dates have been programmed for the months of November of each year if there is a change above the 10% cost benchmark. This monitoring will be performed by program staff.

Final Scheduled completion date and person in-charge:	August 31, 2008 Mrs. Rosario Villanueva (Program Director) and Mildred Bonilla (Program Analyst)
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Mrs. Marisol Rosa Acevedo, CPA
Municipality of Isabela
Finance Director

Date: March 6, 2008

