

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CABO ROJO

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORT**

FISCAL YEAR ENDED JUNE 30, 2003

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GONZÁLEZ TORRES & Co.

Certified Public Accountants and Consultants

Member of:
Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

INDEPENDENT AUDITOR'S REPORT

Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the financial statements of the governmental activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the Municipality of Cabo Rojo of the Commonwealth of Puerto Rico ("Municipality") as of and for the year ended June 30, 2003, 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.

Except as discussed in the following paragraph, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

We were unable to obtain an estimate of the landfill's closure and post closure care costs at June 30, 2003. The accompanying government-wide financial statements did not include the liability for these costs. The generally accepted government accounting standards require that landfill's closure and port-closure costs are estimated and included as liability in the government-wide financial statements. The note "H" of the financial statements describes more details regarding the landfills costs.

In our opinion, except for the effect of such estimate described above, in the government-wide financial statements, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major funds, remaining fund information of the Municipality at June 30, 2003, and the changes in financial position, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, on July 1, 2002, the Municipality implemented a new financial reporting model required for estate and local government established by the Government Accounting Standards Board ("GASB") Statement Number 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Management's Discussion and Analysis and the Analysis of Funding Progress are not required parts of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

January 19, 2004
San Juan, Puerto Rico

The stamp number 1928260
was affixed to the original copy report.



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MANAGEMENT DISCUSSION AND ANALYSIS

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

On July 1, 2002 the Management of the Municipality of Cabo Rojo implemented Statement No. 34 of the Governmental Accounting Standards Board (GASB) "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*". As a result of the requirements of such statement, a Management Discussion and Analysis (MD&A) is prepared. The MD&A is designed to introduce the basic financial statements and provide an analytical overview of the financial activities of the Municipality. Since it focus on current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2003 by \$26,541,997 (net assets).
- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$11,428,320, a decrease of \$633,106 in comparison with the prior year. Approximately 30 percent of the total combined fund balances is unreserved.
- The General Fund, on a current financial resources basis, reported an excess of revenues and other financing sources over expenditures and other financing uses of \$481,834 and an unreserved fund balance of \$1,187,360.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$ 270,612.
- The investment in capital assets as of June 30, 2003 was \$31,955,699 (net of depreciation).
- Long term debt decreased to \$17,141,443, approximately 3 percent with respect to prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's of Cabo Rojo basic financial statements. The Municipality's basic financial statements comprise three components:

- government-wide financial statements
- fund financial statements
- notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resources basis. However, with the implementation of Statement No. 34 of the Governmental Accounting Standards Board (GASB Statement No. 34) for June 30, 2003, the new focus is on both the Municipality as a whole (government-wide) and the fund financial statements. Each view provides a different snapshot of the Municipality's finances. The government-wide financial statements, which are new for fiscal year 2003, provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual parts of the Municipality's government, reporting the Municipality's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year-to-year or government-to-government) and enhance the Municipality's accountability.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

Government-Wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, include all of the government's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two government-wide statements report the Municipality's net assets and how they have changed. Net assets (the difference between the Municipality's assets and liabilities) is one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall health of the Municipality.

Fund Financial Statements

The format of the fund financial statements will be more familiar to traditional users of government financial statements. The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting mechanisms 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 focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. 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 Total Governmental Funds column requires reconciliation because of the different measurement focus from the government-wide statements (current financial resources versus total economic resources) which is reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the Governmental Activities column of the government-wide statements.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

This is the first year that the Municipality has presented its financial statements under the new reporting model required by GASB Statement No. 34. This reporting model changes significantly both the recording and presentation of financial data. However, under this statement, the Municipality is not required to restate prior periods for the purposes of providing comparative information. In future years, when prior year information becomes available, a comparative analysis of government-wide information will be included in this report.

Net assets

TABLE 1

Condensed Statement of Net Assets
June 30, 2003

Assets	
Current and other assets	\$ 16,240,905
Capital assets	31,955,699
Total assets	<u>\$ 48,196,604</u>
Liabilities	
Current and other liabilities	\$ 4,513,164
Long term liabilities	17,141,443
Total liabilities	<u>21,654,607</u>
Net assets	
Invested in capital assets, net of related debt	25,904,860
Restricted	2,345,139
Unrestricted	(1,708,002)
Total net assets	<u>\$ 26,541,997</u>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. 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. Approximately 9% of the Municipality's net assets are subject to external restrictions.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. As of June 30 2003 the Municipality presented an unrestricted net assets deficit due primarily to incurred 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

TABLE 2

**Condensed Statement of Activities
Fiscal year ended June 30, 2003**

Program revenues:	
Fees, fines and charges for services	\$ 3,447,407
Operating grants and contributions	1,353,876
Capital grants and contributions	1,854,240
General revenues:	
Property taxes	9,086,987
Municipal license taxes	2,352,331
Grants and contributions not restricted to specific programs	621,794
Interest	348,924
Other	66,483
Total revenues	<u>19,132,042</u>
Expenses:	
General government	4,828,866
Public works and sanitation	5,668,610
Public safety	1,550,376
Culture and recreation	1,113,352
Health	724,368
Welfare and community development	1,971,393
Education	290,249
Interest on long term debt	754,334
Total expenses	<u>16,901,548</u>
Change in net assets	2,230,494
Net assets-beginning of year	<u>24,311,503</u>
Net assets-end of year	<u>\$ 26,541,997</u>

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

FIGURE 1

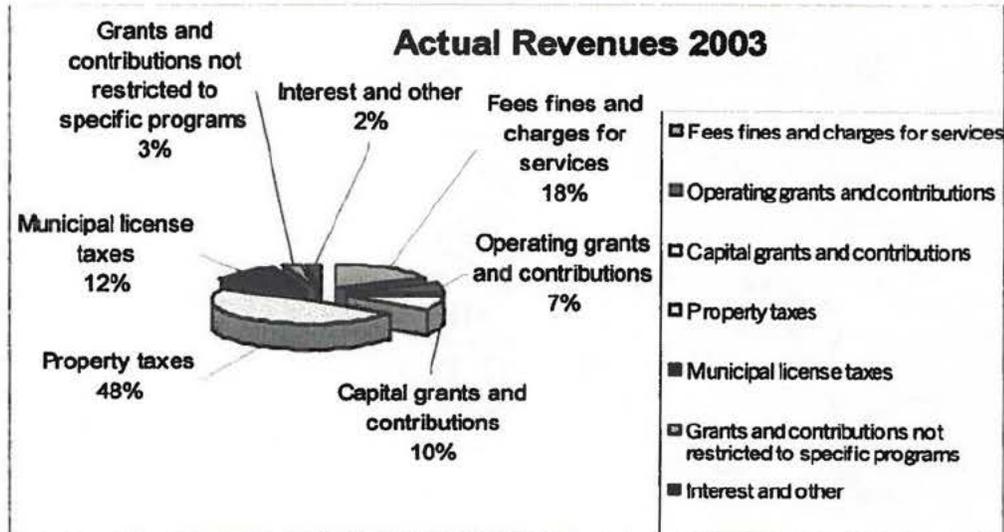
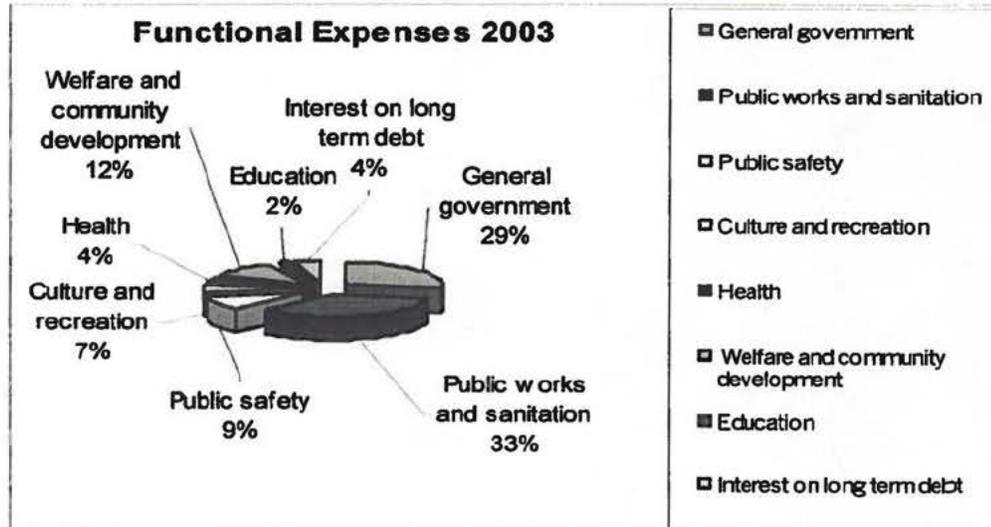


FIGURE 2



Approximately 48% of the Municipality's revenues came from property taxes and approximately 18% comes from fees and charges for services. The remaining significant revenues are municipal license taxes with 12%. The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 33%, general government with 29% and welfare with 12%. Program revenues of the Municipality covered 39% of total expenses.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. 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, 2003, the governmental funds reported combined ending fund balances of \$11,428,320, a net decrease of \$633,106 in comparison with the prior year. This decrease was caused primarily by a net change in debt service fund of (\$935,776) and (\$338,588) in the Capital Improvement Fund - \$4,425,000 Bond. Of total combined fund balances, \$3,446,144 (30%) constitutes unreserved fund balance, of which \$1,187,360 is available for governmental spending and \$2,258,784 is designated by management for tentative spending plans. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 10% of total combined ending fund balances. For the year ended 2003 the fund balance of the general fund increased by \$481,834 as compared by the prior year increase of \$392,848. This accomplishment was the result of a net increase of \$ 987,660 in total revenues, sufficient to cover a net increase of \$ 898,674 in total expenditures. The principal components of the net increase in revenues are an increase of \$750,000 in property taxes and an increase of \$357,798 in intergovernmental revenues, primarily from revenues related to the compensation in lieu of tax from the Puerto Rico Electric and Power Authority (PREPA).

General fund budgetary highlights

The general fund original budget for the fiscal period 2002-2003 presented an increase of 5% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$1,701,525 due to additional collections for property taxes, reimbursements from the Municipal Revenue Collection Center (CRIM), christmas bonus reimbursement from the Puerto Rico Department of Treasury and construction permits. Actual revenues exceeded the revised budgeted revenues by \$114,316 (net). The most significant variances were in compensation in lieu of tax from PREPA (\$141,215), \$100,160 in interest revenue and \$68,794 due to additional collections of construction permits.

A positive variance of \$156,296 between revised budget and actual expenditures was due mainly to a net decrease of \$42,802 in general government and \$58,005 in welfare expenditures. The Municipality reported less expenditures than appropriations in those functions on payments for unemployment insurance and salaries. The Municipality ended with a total net positive variance of \$270,611 for budgetary purposes.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$31,955,699 in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 18% over the prior year.

TABLE 3

**Municipality of Cabo Rojo's Capital Assets
(net of depreciation)
June 30, 2003**

Non-depreciable assets:	
Land	\$ 2,622,007
Construction in progress	3,741,297
Depreciable assets:	
Land improvements	4,048
Buildings and buildings improvements	12,719,321
Infrastructure	10,058,535
Vehicles, machinery and equipment	2,810,491
Total	<u>\$ 31,955,699</u>

During the year the Municipality started certain significant construction projects which were ended shortly after year end. The most significant projects and costs as of June 30, 2003 follows:

- Improvements to "Faro de los Morrillos" - \$1,076,130
- Improvements to "Plaza del Mercado" - \$1,532,608
- Construction of "Pedernales" bridge (infrastructure) - \$586,725

The Municipality reported approximately \$3,960,774 in infrastructure additions during the year. These additions are composed mainly of capital improvements and donations from construction contractors of municipal streets and roads.

The Municipality's fiscal year 2004 consolidated capital budget calls for a significant amount of projects including improvements of commercial area of "Bo. Joyuda", improvements to "Teatro Paraiso", construction of new City Hall, 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. More detailed information about the Municipality's capital assets is presented in Notes E and O to the financial statements.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

Long term debt

At year-end, the Municipality had \$13,107,500 in general and special bonds and notes, a decrease of 7% with respect to prior year. The Municipality is required to maintain a legal debt margin of 10% of the total assessment of property located within the Municipality plus the balance of the property taxes in the debt service fund.

TABLE 4

**Municipality of Cabo Rojo's Outstanding Debt
June 30, 2003**

General and special obligation bonds and notes	\$ 13,107,500
Compensated absences	2,083,299
Claims and judgments	213,965
Puerto Rico Department of Labor – unemployment payment plan	188,375
Payable to CRIM – property tax advances	533,418
Payable to CRIM – prior years doubtful accounts	992,682
Others	22,204
Total	\$ 17,141,443

More detailed information about the Municipality's long term liabilities is presented in Note G 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 2003-2004 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 12.9%, which compares with the Commonwealth rate of 12.7% and western region area average of 14.9%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2004 are \$13,341,479, an increase of approximately 5% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. Among planned projects, this budget included an increase in monthly salaries to 84 employees, increase of \$20 per employee for medical plans benefits and a \$1,000 christmas bonus to all Municipal employees. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of 2004 fiscal year.

On October, 2003 the Municipality was notified by the U.S. Department of Housing and Urban Development that the Municipality has been identified by the Office of Management and Budget (OMB) as a "Principal City" of a Metropolitan Statistical Area. As such, the Municipality is a potential new Entitlement under the Community Development Block Grant Program.

Municipality of Cabo Rojo

MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)

Fiscal year ended June 30, 2003

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 1380, Cabo Rojo, Puerto Rico 00623.



Finance Director Signature

BASIC FINANCIAL STATEMENTS

MUNICIPALITY OF CABO ROJO

STATEMENT OF NET ASSETS

JUNE 30, 2003

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 6,564,043
Cash with fiscal agent	8,487,870
Receivables, net	
Municipal license taxes	4,337
Property taxes	219,053
Other	70,200
Due from:	
Commonwealth Governmental entities (note C2)	260,262
Federal Government	566,995
Deferred charges (note A8)	68,145
Capital assets (note E):	
Land and construction in progress	6,363,304
Other capital assets, net	<u>25,592,395</u>
Total capital assets, net	<u>31,955,699</u>
 Total assets	 <u>\$ 48,196,604</u>
 LIABILITIES	
Accounts payable	\$ 1,267,112
Accrued payroll taxes and withholdings	27,409
Matured bonds and notes payable	846,875
Matured interest payable	321,145
Due to:	
Commonwealth Governmental entities	6,583
Federal Government	53,426
Deposits payable	16,472
Deferred revenues	
Municipal license taxes (note C1)	1,931,953
Federal grants	42,189
Long term liabilities (note G) :	
Due within one year	1,617,675
Due in more than one year	<u>15,523,768</u>
Total liabilities	<u>21,654,607</u>
 NET ASSETS	
Invested in capital assets, net of related debt	25,904,860
Restricted for:	
Capital projects	508,165
Debt service	1,395,508
Other purposes	441,466
Unrestricted (deficit)	<u>(1,708,002)</u>
Total net assets	<u>\$ 26,541,997</u>

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2003

Functions	Expenses	Program Revenues			Total
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 4,828,866	\$ 1,599,724	\$ 115,484	\$ 120,099	\$ (2,993,559)
Public works and sanitation	5,668,611	1,742,239	-	1,652,640	(2,273,732)
Public safety	1,550,376	-	467,892	-	(1,082,484)
Culture and recreation	1,113,352	105,445	-	-	(1,007,907)
Health	724,368	-	-	-	(724,368)
Welfare and community development	1,971,393	-	507,044	81,501	(1,382,848)
Education	290,249	-	263,456	-	(26,793)
Interest on long term debt	754,334	-	-	-	(754,334)
Total	\$ 16,901,549	\$ 3,447,408	\$ 1,353,876	\$ 1,854,240	(10,246,025)
General revenues					
					9,086,987
					2,352,331
					621,794
					348,924
					3,225
					63,258
					<u>12,476,519</u>
					2,230,494
					24,311,503
					<u>\$ 26,541,997</u>

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2003

	General	Community Development Block Grant Program	Debt Service Fund	Capital Improvement Fund-\$4,425,000 Bond	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 3,604,178	\$ 11,774	\$ -	\$ -	\$ 2,948,151	\$ 6,564,103
Cash with fiscal agent	-	-	2,344,475	4,069,234	2,074,101	8,487,810
Receivables, net:						
Municipal license taxes	4,337	-	-	-	-	4,337
Property taxes	-	-	219,053	-	-	219,053
Others	70,200	-	-	-	-	70,200
Due from:						
Commonwealth Governmental entities (note C2)	219,368	-	-	-	40,894	260,262
Federal Government	-	552,646	-	-	14,349	566,995
Other funds	74,267	-	-	-	-	74,267
Advances to other funds	90,000	-	-	-	-	90,000
Total assets	\$ 4,062,350	\$ 564,420	\$ 2,563,528	\$ 4,069,234	\$ 5,077,495	\$ 16,337,027
LIABILITIES						
Accounts payable	\$ 486,709	\$ 519,273	\$ -	\$ -	\$ 261,131	\$ 1,267,113
Accrued payroll taxes and withholdings	39,316	-	-	-	-	39,316
Matured bonds and notes payable	-	-	846,875	-	-	846,875
Matured interest payable	-	-	321,145	-	-	321,145
Due to:						
Commonwealth Governmental entities	6,583	-	-	-	-	6,583
Federal Government	-	-	-	-	53,426	53,426
Other funds	-	33,373	-	-	40,894	74,267
Advances from other funds	-	-	-	-	90,000	90,000
Deposits payable	16,472	-	-	-	-	16,472
Deferred revenues:						
Municipal license taxes (note C1)	1,931,953	-	-	-	-	1,931,953
Intergovernmental-Commonwealth agencies (note F)	219,368	-	-	-	-	219,368
Federal grants	-	11,774	-	-	30,415	42,189
Total liabilities	2,700,401	564,420	1,168,020	-	475,866	4,908,707
FUND BALANCES						
Reserved for:						
Encumbrances	174,589	-	-	-	-	174,589
Debt service	-	-	1,395,508	-	-	1,395,508
Capital projects	-	-	-	4,069,234	2,342,846	6,412,080
Unreserved, designated for subsequent years expenditures, reported in:						
Special revenue fund	-	-	-	-	2,006,763	2,006,763
Capital project fund	-	-	-	-	252,021	252,021
Unreserved, undesignated, reported in:						
General fund	1,187,360	-	-	-	-	1,187,360
Total fund balances	1,361,949	-	1,395,508	4,069,234	4,601,629	11,428,320
Total liabilities and fund balances	\$ 4,062,350	\$ 564,420	\$ 2,563,528	\$ 4,069,234	\$ 5,077,495	\$ 16,337,027

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2003

Total governmental fund balances:		\$ 11,428,320
 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:		31,955,699
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred charges:		68,145
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Due from Commonwealth entities:		
Puerto Rico Electric Power Authority (PREPA)	\$ 203,516	
CRIM	<u>15,852</u>	219,368
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	\$13,107,500	
Compensated absences	2,071,392	
Unemployment debt - payment plan	188,374	
Judgement and claims	213,965	
Municipal Solid Waste debt	854	
Doubtfull accounts debt payable to CRIM	992,682	
Advances from CRIM	533,418	
Lease payable	<u>21,350</u>	(17,129,535)
 Net assets of governmental activities:		 <u>\$ 26,541,997</u>

MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2003

	General	Community Development Block Grant Program	Debt Service Fund	Capital Improvement Fund-\$4,425,000 Bond	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes note I)	\$ 7,838,409	\$ -	\$ 1,437,865	\$ -	\$ -	\$ 9,276,274
Municipal license taxes (note C1)	2,352,331	-	-	-	-	2,352,331
Intergovernmental (note J)	2,227,003	1,514,375	-	-	1,768,447	5,509,825
Fees, fines and charges for services	1,747,016	-	-	-	-	1,747,016
Interest	273,068	-	24,111	37,257	14,489	348,925
Other	13,994	-	-	-	-	13,994
Total revenues	14,451,821	1,514,375	1,461,976	37,257	1,782,936	19,248,365
Expenditures						
Current:						
General government	4,158,689	126,371	336,402	-	145,136	4,766,598
Public works and sanitation	4,760,729	-	-	-	450,600	5,211,329
Public safety	1,264,360	-	-	-	315,730	1,580,090
Culture and recreation	782,528	-	-	-	22,905	805,433
Health	724,368	-	-	-	-	724,368
Welfare and community development	1,322,503	52,036	-	-	518,798	1,893,337
Education	17,160	-	-	-	266,812	283,972
Capital outlays	-	1,335,968	-	338,588	1,166,121	2,840,677
Debt service						
Principal	-	-	1,023,500	-	-	1,023,500
Interest	-	-	752,166	-	-	752,166
Total expenditures	13,030,337	1,514,375	2,112,068	338,588	2,886,102	19,881,470
Excess (deficiency) of revenues over expenditures	1,421,484	-	(650,093)	(301,331)	(1,103,166)	(633,106)
Other financing sources (uses)						
Operating transfers in	166,167	-	39,663	-	1,366,154	1,571,984
Operating transfers out	(1,105,817)	-	(325,346)	(37,257)	(103,564)	(1,571,984)
Total other financing sources (uses)	(939,650)	-	(285,683)	(37,257)	1,262,590	-
Net change in fund balance	481,834	-	(935,776)	(338,588)	159,424	(633,106)
Fund balance at beginning of year, as restated (note K)	880,115	-	2,331,284	4,407,822	4,442,205	12,061,426
Fund balance at end of year	\$ 1,361,949	\$ -	\$ 1,395,508	\$ 4,069,234	\$ 4,601,629	\$ 11,428,320

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

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

FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances-total governmental funds: **\$ (633,106)**

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:	3,506,449	
Less: current year depreciation	<u>(1,375,563)</u>	2,130,886

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:

(1,591)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Due from Commonwealth entities:

Puerto Rico Electric Power Authority (PREPA)-current year	\$ 203,516	
CRIM-current year	<u>15,852</u>	219,368

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

Due from Commonwealth entities:

Puerto Rico Electric Power Authority (PREPA)-prior year	\$ (128,964)	
CRIM-prior year	<u>(205,139)</u>	(334,103)

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	\$ 1,023,500	
Other long term liabilities	<u>117,191</u>	1,140,691

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	\$ (69,919)	
Judgment and claims	(213,965)	
Amortization of deferred charges	<u>(7,767)</u>	(291,651)

Change in net assets of governmental activities:

\$ 2,230,494

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cabo Rojo was founded in 1771. 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 twelve (12) 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.

In June 1999, the GASB issued Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*" which affects the way the Municipality prepares and presents financial information. This Statement, which establishes new requirements and a new reporting model for the annual reports of state and local governments, was developed to make annual reports easier to understand and more useful to the people who use the governmental financial information to make decisions.

Other GASB Statements are required to be implemented in conjunction with GASB 34. Therefore, the Municipality has implemented the following GASB Statements in the current fiscal year: GASB Statement No. 37 "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*"; GASB Statement No. 38 "*Certain Financial Statement Note Disclosures*"; and GASB Statement No. 41 "*Budgetary Comparison Schedules—Perspective Differences—an amendment of GASB Statement No. 34*".

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Cabo Rojo (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. The basic criteria for deciding financial accountability are any one of the following:

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- 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.

There are two methods of presentation of the component unit in the financial statement:

- a. Blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances.
- b. Discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions:

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.

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

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 are recognized as revenues in the year for which they are levied. 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 and 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.

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.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 (percentage of the assets, liabilities, revenues or expenditures) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund: The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted 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.

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.

Capital Improvement Fund - \$4,425,000 Bond: Capital Improvement Fund is used to account for the financial resources used for the construction of a capital asset.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. 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. Expenditures generally are recorded when the related liability is incurred.

Property taxes are recognized as revenues in the year for which they are levied. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met and revenue becomes available. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Notes to Financial Statements

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

Required Supplementary Information:

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

3. *Cash, cash equivalents and cash with fiscal agent*

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain state grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Puerto bonds and notes as established by law. Cash with fiscal agent in the capital improvement fund represents the undisbursed proceeds from the \$4,425,000 bond which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico (GDB). Cash with fiscal agent of 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 Commonwealth governmental entities in the general fund represents contributions from the Puerto Rico Electric Power Authority (PREPA) for payments in lieu of tax and/or represents amounts due from the Municipal Revenues Collection Center (CRIM) for excess of actual collections over advances of property taxes and amounts of municipal equalization fund ; in other governmental funds represents amounts owed to the Municipality for reimbursement of expenditures incurred on Commonwealth agencies grants (other governmental funds). 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".

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.

7. *Capital assets*

Capital assets, 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 \$1,000 or more for capitalizing vehicles, machinery and equipment. 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.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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	20
Buildings and building improvements	20-50
Infrastructure	20-40
Vehicles, machinery and equipment	5-15

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. Bond issuance costs are reported as deferred charges and amortized as required by current standards.

In the fund financial statements, the face amount of the debt issued is reported as other financing sources. Governmental fund types recognize bond issuance costs 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.

9. *Compensated absences*

The Municipality's employee accumulates vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay 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 pay is liquidated to employees with 10 years or more service up to the maximum number of days. The amount of vacations leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period. The amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the fiscal year-end.

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.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. *Fund balance*

a. *Reservation of fund balance*

Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- | | |
|------------------|---|
| Encumbrances: | Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received. |
| 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. |

b. *Unreserved fund balance-designations*

Designations of unreserved fund balance represent tentative plans or commitments of governmental resources.

11. *Interfund transactions*

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

12. *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 Cabo Rojo 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.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. *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.

14. *Future adoption of accounting pronouncements*

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

	Statement	To be Adopted in Fiscal year ended,
39	Determining Whether Certain Organizations Are Component Units - an amendment of GASB 34 Statement No. 14	June 30, 2004
40	Deposit and Investment Risk Disclosure - an amendment of GASB Statement No. 3	June 30, 2005

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

NOTE B - DEPOSITS

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 are held by the Secretary of Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Governmental Development Bank of Puerto Rico (GDB). The Municipality's bank balances in commercial banks of \$6,953,549 were fully collateralized at June 30, 2003. The deposits at GDB of \$ 6,139,335, restricted principally for capital projects and \$2,344,475 that are reported in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE C - RECEIVABLES

1. *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, 2003 the tax rates were as follows:

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE C - RECEIVABLES - Continued

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable representing uncollected tax as of June 30, 2003 on filed tax returns follows:

	<u>Amount</u>
Receivable as of June 30, 2003	\$ 150,786
Less: allowance for uncollectible	<u>(146,449)</u>
	<u>\$ 4,337</u>

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,931,953 are recorded as deferred revenues.

2. Due from Commonwealth entities

Amounts due from Commonwealth entities as of June 30, 2003 follows:

	<u>Amount</u>
Municipal Revenue Collection Center (CRIM) – excess of actual property tax collections over advances of property tax and amounts of municipal equalization fund	\$ 15,852
Puerto Rico Electric Power Authority (PREPA) – compensation in lieu of tax	203,516
Puerto Rico Department of Labor – payroll and related liabilities under Law No. 52	<u>40,894</u>
	<u>\$ 260,262</u>

The amounts due from CRIM and from PREPA for compensation in lieu of tax for a total amount of \$219,368 are recorded as deferred revenue in the governmental funds statements since are not available as required by current standards.

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds:

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

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE D - INTERFUND TRANSACTIONS - Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major fund-CDBG	\$ 33,373
General Fund	Other governmental funds-Law No. 52	40,894
Total:		<u>\$ 74,267</u>

2. *Advances to other funds*

Advances to/from other funds of \$90,000 represent an advance of funds from the general fund to the special account of Legislative grants.

3. *Operating transfers:*

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

NOTE E - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2003 is as follows:

	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,602,177	\$ 19,900	\$ 70	\$ 2,622,007
Construction in progress	1,928,008	1,813,289	-	3,741,297
Total capital assets not being depreciated:	4,530,185	1,833,189	70	6,363,304
Capital assets, being depreciated:				
Land improvements	-	4,187	-	4,187
Buildings and building improvements	16,063,112	9,833	-	16,072,945
Infrastructure	9,704,713	3,960,774	-	13,665,487
Vehicles, machinery and equipment	5,367,609	585,608	64,661	5,888,556
Total capital assets being depreciated	31,135,434	4,560,402	64,661	35,631,175
Less accumulated depreciation for:				
Land improvements	-	139	-	139
Buildings and building improvements	2,957,649	395,975	-	3,353,624
Infrastructure	3,031,304	575,648	-	3,606,952
Vehicles, machinery and equipment	2,737,405	403,801	63,141	3,078,065
Total accumulated depreciation	8,726,358	1,375,563	63,141	10,038,780

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE E - CAPITAL ASSETS - Continued

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Total capital assets being depreciated, net	22,409,076	3,184,839	1,520	25,592,395
Governmental activities capital assets, net	<u>\$ 26,939,261</u>	<u>\$ 5,018,028</u>	<u>\$ 1,590</u>	<u>\$ 31,955,699</u>

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

Governmental activities:

General government	\$ 25,881
Public works and sanitation	323,725
Public safety	622,250
Culture and recreation	307,920
Welfare and community development	89,510
Education	<u>6,277</u>

Total depreciation expense, governmental activities \$ 1,375,563

NOTE F - DEFERRED REVENUES

Deferred revenues for Commonwealth agencies represent resources received before the Municipality has a legal claim to them and for federal grants represent resources that are received before allowable expenditures are incurred. A detail of these balances follows:

Fund/Grant	Commonwealth agencies	Federal grants
Major Fund-CDBG	\$ -	\$ 11,774
General Fund- Due from CRIM	15,852	-
General Fund- Due from PREPA	203,516	
Other Governmental Funds - Child Care and Development Block Grant	-	3,155
Other Governmental Funds - Special Programs for the Aging	-	26,684
Other Governmental Funds - Cops in School	-	112
Other Governmental Funds - Local Law Enforcement Grant	-	<u>464</u>
Total:	<u>\$ 219,368</u>	<u>\$ 42,189</u>

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE G - 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, 2003:

	Balance at July 1, 2002	Increases	Decreases	Balance at June 30, 2003	Due within one year
General, Special Obligations Bonds and Notes	\$ 14,131,000	\$ -	\$ 1,023,500	\$ 13,107,500	\$ 1,091,500
Compensated absences	1,832,046	408,372	157,119	2,083,299	197,858
Claims and judgments	-	213,965	-	213,965	213,965
Puerto Rico Department of Labor (unemployment payment plan)	296,017	-	107,642	188,375	107,642
Municipal Landfill obligation (note H)	3,575	-	2,721	854	854
Puerto Rico Treasury Department (Social Security debt payment plan)	526	-	526	-	-
Advances from CRIM	533,418	-	-	533,418	-
Payable to CRIM-prior years doubtful accounts	992,682	-	-	992,682	-
Capital lease payable	27,651	-	6,301	21,350	5,856
	<u>\$ 17,816,915</u>	<u>\$ 622,337</u>	<u>\$ 1,297,809</u>	<u>\$ 17,141,443</u>	<u>\$ 1,617,675</u>

2. *General and special obligation bonds and notes*

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2003 amount to \$13,107,500. 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. The Municipality is required to maintain a legal debt margin of 10% of the total assessment of property located within the Municipality plus the balance of the property taxes in the debt service fund. 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 sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE G - LONG TERM DEBT - Continued

A detail of the general and special obligation bonds and notes as of June 30, 2003 follows:

	<u>Outstanding Amount</u>
1982 public improvement bonds of \$141,000 due in annual installments of \$3,000 to \$11,000 through January 1, 2007; with interest at 5%	\$ 38,000
1984 general obligation bonds of \$293,000 due in annual installments of \$7,000 to \$21,000 through January 1, 2008; with interest at 5%	92,000
1985 public improvement bonds of \$300,000 due in annual installments of \$4,000 to \$22,000 through January 1, 2011; with interest at 6.125%	148,000
1991 public improvement bonds of \$770,000 due in annual installments of \$30,000 to \$90,000 through July 1, 2006; bearing interest at rates ranging from 3.263% to 6.363%	235,000
1991 public improvement bonds of \$880,000 due in annual installments of \$20,000 to \$61,000 through January 1, 2016; with interest at 5%	599,000
1992 public improvement bonds of \$454,000 due in annual installments of \$10,000 to \$32,000 through January 1, 2017; with interest at 5%	326,000
1995 public improvement bonds of \$1,145,000 due in annual installments of \$55,700 to \$135,000 through July 1, 2008; bearing interest at rates from 4.70% to 6.875%	580,000
1995 public improvement bonds of \$435,000 due in annual installments of \$30,000 to \$60,000 through July 1, 2005; bearing interest at rates ranging from 4.70% to 6.63%	115,000
1996 public improvement bonds of \$105,000 due in annual installments of \$5,000 to \$10,000 through July 1, 2010; bearing interest at rates ranging from 4.70% to 6.63%	65,000
1996 public improvement bonds of \$765,000 due in annual installments of \$15,000 to \$75,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58%	615,000

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE G - LONG TERM DEBT - Continued

	<u>Outstanding Amount</u>
1996 general obligation notes of \$1,735,000 due in annual installments of \$40,000 to \$165,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58%	1,395,000
1994 public improvement bonds of \$300,000 due in annual installments of \$21,000 to \$34,000 through January 1, 2009; with interest at 4.875%	183,000
1999 general obligation bonds of \$1,205,000 due in annual installments of \$135,000 to \$125,000 through January 1, 2005; bearing interest at rates ranging from 4.865% to 6%	410,000
1999 general obligation bonds of \$830,000 due in annual installments of \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 4.865% to 6.56%	760,000
1999 general obligation bonds of \$1,310,000 due in annual installments of \$50,000 to \$140,000 through July 1, 2013; bearing interest rates ranging from 4.865% to 6.11%	1,020,000
1999 general obligation bonds of \$2,040,000 due in annual installments of \$80,000 to \$215,000 through July 1, 2014; bearing interest rates ranging from 2.70% to 7.81%	1,690,000
2000 general obligation bonds of \$405,000 due in annual installments of \$70,000 to \$95,000 through July 1, 2004; bearing interest at rates ranging from 2.70% to 7.81%	95,000
1995 public improvement bonds of \$500,000 due in annual installments of \$40,000 to \$61,000 through January 1, 2010; with interest at 4.875%	374,000
2002 general obligation bonds of \$4,425,000 due in annual installments of \$75,000 to \$345,000 through July 1, 2026; bearing interest rates ranging from 2.70% to 5.60%	4,270,000
1986 special obligation note of \$500,000 due in annual installments of \$25,000 through July 1, 2006; bearing interest at rates ranging from 4.25% to 7.81%	75,000

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE G - LONG TERM DEBT - Continued

	<u>Outstanding Amount</u>
1986 Lottery Special Fund loan of \$150,000 due in quarterly installments of \$1,875 through July 1, 2006; with interest at 8%	<u>22,500</u>
	<u>\$ 13,107,500</u>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2003 follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,091,500	\$ 694,505
2005	1,063,500	640,862
2006	858,500	586,516
2007	785,000	542,977
2008	835,000	503,754
2009-2013	3,677,000	1,931,667
2014-2018	2,282,000	1,023,612
2019-2023	1,550,000	546,855
2024-2026	<u>965,000</u>	<u>110,600</u>
Totals	<u>\$ 13,107,500</u>	<u>\$ 6,581,348</u>

3. *Other long-term liabilities*

	<u>Amount</u>
Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds	\$ 2,083,299
Claims and judgments - represent the final settlement of two legal cases paid subsequent to June 30, 2003. The awarded amount of \$213,965 was paid with unrestricted funds.	213,965
Puerto Rico Department of Labor unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the municipality. A payment plan was formalized on March 13, 2002 and is being paid from unrestricted funds.	188,375
Municipal landfill obligation. Pending estimated closure care cost is being paid from unrestricted funds.	854

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE G - LONG TERM DEBT - Continued

	<u>Amount</u>
<p>Advances from CRIM - represents the balance owed to CRIM at June 30, 2003 for excess of advances of property tax and other subsidies over final amount of property tax collections for the fiscal year ended June 30, 2000 (see note I). 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).</p>	533,418
<p>Payable to CRIM-prior year's doubtful accounts - As of June 30, 2002 the Municipality has entered into an agreement with the Municipal Revenue Collection Center (CRIM) to refinance the prior year's property tax doubtful accounts, which amounted to \$992,682 on a long-term basis under the provision of Law No. 146 of October 11, 2001. The refinancing was done through a special loan to be repaid from .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. The financing agreement was authorized by the Municipal Legislature of Cabo Rojo on Resolution No. 222 of March 12, 2002.</p>	992,682
<p>Capital lease obligation - The Municipality is obligated under a capital lease with a third party that expires on 2006. At June 30, 2003 the capitalized cost of capital leased equipment amounted to \$30,188 and is being paid in monthly installments of \$605 including interest at 7.5%. The present value of future minimum lease payments as of June 30, 2003 is as follows:</p>	21,350
<p><u>Year ending June 30,</u></p>	<p><u>Amount</u></p>
2004	\$ 7,259
2005	7,259
2006	7,259
2007	<u>2,420</u>
Total minimum lease payments	24,197
Less: Amount representing interest	<u>(2,847)</u>
Present value of minimum lease payments	<u>\$ 21,350</u>

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE H - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

The Municipality discontinued the operation and ceased to accept solid waste in one of its two landfills. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance procedures at the landfill site for thirty years after closure. The closure and post closure care procedures are being assumed by the Municipality. As guidance for calculation of total closure costs, the Municipality utilized an estimate provided by the Puerto Rico Solid Waste Disposal Authority. As of June 30, 2003 the pending estimated closure care costs amounted to \$854 and are recorded in the Statement of Net Assets. The Municipality is required to provide post closure care after the closure is completed. Total post closure care costs has not been determined and accounted as required by U.S. generally accepted accounting principles as of June 30, 2003. The Municipality has a reserve in the amount of \$13,780. Also, the Municipality approved an annual reserve of 1.5% of the total revenues from landfill to increase the reserve of landfill's costs.

The Municipality also has a solid waste landfill, which is in operation as of June 30, 2003. The total estimate of the closure and post closure care costs of the landfill and the portion of estimated total current cost of closure and post closure care has not been determined and recorded as required by generally accepted accounting principles as of June 30, 2003. The final effect of these matters cannot be properly determined.

NOTE I - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Municipal Property Tax Law (Law 83 of August, 1995). The tax levied on property is determined by the Municipal Government based on limits established by the Commonwealth Legislature. 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. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st.

The 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. The Municipality has a net payable to the CRIM of \$533,418 pertaining to fiscal year 1999-2000. A receivable of \$15,852 resulting from the final settlement for fiscal year 2002-2003 is recorded as revenue in the government-wide statements but is recorded as a deferred revenue in the governmental funds statements since is not available as required by current standards.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE J - INTERGOVERNMENTAL REVENUES

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

	Amount
Amount of municipal subsidies send by CRIM	\$ 474,586
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,605,209
Reimbursement from Commonwealth Government of Christmas Bonus expense	147,208
	<u>\$ 2,227,003</u>

NOTE K - FUND BALANCE RESTATEMENTS

Beginning fund balances of governmental funds has been restated to reflect the correction of errors and recognition of certain assets and liabilities not recorded in previous year. Detail of restatements follows:

	General Fund	Debt Service Fund	Other Governmental Funds
Fund balance at beginning of year, as previously reported:	\$ 523,130	\$ 2,298,069	\$ 4,784,946
Adjustments:	<u>356,985</u>	<u>33,215</u>	<u>(342,741)</u>
Fund balance at end of year, as restated	<u>\$ 880,115</u>	<u>\$ 2,331,284</u>	<u>\$ 4,442,205</u>

NOTE L - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. 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 nonoccupational 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.

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE L - RETIREMENT PLAN - Continued

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

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

2. Funding policy

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

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

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2003	<u>\$ 445,997</u>	<u>\$ 22,352</u>
2002	<u>\$ 441,278</u>	<u>\$ 23,924</u>
2001	<u>\$ 456,730</u>	<u>N/A</u>

Municipality of Cabo Rojo

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE M - COMMITMENTS

1. *Operating leases*

The Municipality leases 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 \$6,855. 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, 2003 of approximately \$ 626,730 for construction, improvements or renovation of certain municipal facilities.

NOTE N - CONTINGENCIES

1. *Federal and State grants*

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

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of two settled cases subsequent to June 30, 2003 and not to be covered by insurance, the Municipality accrued \$213,965 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE O - SUBSEQUENT EVENTS

1. On September 29, 2003, the Government Development Bank of Puerto Rico approved a \$1,000,000 general obligation bond issuance to the Municipality to finance infrastructure projects.
2. On October 7, 2003, the Government Development Bank of Puerto Rico approved a \$305,000 loan to the Municipality to finance the acquisition of equipment.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF CABO ROJO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 4,998,573	\$ 5,958,277	\$ 5,958,277	\$ -
Municipal license taxes	2,361,805	2,361,805	2,347,994	(13,811)
Intergovernmental	3,736,748	3,883,956	3,742,741	(141,215)
Fees, fines and charges for services	1,335,000	1,728,368	1,805,780	77,412
Interest	250,000	250,000	350,160	100,160
Other	16,000	128,171	219,941	91,770
Transfers from other funds	-	89,075	89,075	-
Total revenues	<u>12,698,126</u>	<u>14,399,652</u>	<u>14,513,968</u>	<u>114,316</u>
Expenditures				
General government	4,017,655	4,343,845	4,301,043	42,802
Public works and sanitation	4,593,340	4,783,972	4,759,140	24,832
Public safety	1,372,045	1,276,244	1,251,286	24,958
Culture and recreation	599,599	778,995	775,175	3,820
Health	735,424	724,369	724,368	1
Welfare and community development	1,310,563	1,367,372	1,309,367	58,005
Education	28,200	17,401	17,160	241
Transfers to other funds	41,300	1,107,454	1,105,817	1,637
Total expenditures	<u>12,698,126</u>	<u>14,399,652</u>	<u>14,243,356</u>	<u>156,296</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,612</u>	<u>\$ 270,612</u>

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

Municipality of Cabo Rojo

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

June 30, 2003

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for General Fund following the requirements of the Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These includes: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums. Budget amendments, which require a change in total appropriations of any department, are approved by the Municipal Legislature. Certain budget transfers within the limitations and restriction of the Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budget is prepared on a budgetary (statutory) basis of accounting which is different from GAAP. Revenues include amounts classified by GAAP as other financing sources and expenditures include encumbrances and amounts classified by GAAP as other financing uses. 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 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 budgetary comparison schedule - general fund present 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:

Municipality of Cabo Rojo

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

June 30, 2003

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Revenues:

Actual amounts (budgetary basis) revenues from the budgetary comparison schedule:	\$ 14,513,968
Differences - budget to GAAP:	
Transfers from other funds are revenues for budgetary basis but are not revenues for financial reporting purposes:	(166,167)
Non budgeted items recorded as revenues for financial reporting purposes	104,021
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds:	<u><u>\$ 14,451,822</u></u>

Expenditures:

Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule:	\$ 14,243,356
Differences - budget to GAAP:	
Transfers to other funds are expenditures for budgetary basis but are not expenditures for financial reporting purposes:	(1,105,817)
Budgeted expenditures not considered for financial reporting purposes	(161,156)
Non budgeted items recorded as current year expenditures for financial reporting purposes:	228,543
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	(174,589)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds:	<u><u>\$ 13,030,337</u></u>

MUNICIPALITY OF CABO ROJO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
<u>U.S. Department of H.U.D.</u>			
Program:			
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	FD - 10 AB - 10 DC - 10 AF - 10	\$1,514,375
Program:			
Direct Program: Section 8 Housing Choice Vouchers	14.871	N/A	<u>329,000</u> 1,843,375
<u>U.S. Department of Health and Human Services</u>			
Program:			
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	2000-083 2002-023	193,948
Program:			
Passed through the P.R. Governor Office (Oficina de Asuntos de la Vejez): Special Programs for the Aging Title III Part B Grants for for Supportive Services and Senior Centers	93.044	N/A	<u>82,769</u> 276,717
<u>Federal Emergency Management Agency</u>			
Program:			
Passed through the Puerto Rico Governor Office: (Governor's Authorized Representative-GAR) Public Assistance Grants	83.544	DR-PR-1247	39,900
<u>U.S. Department of Justice</u>			
Programs:			
Passed through the P.R. Department of Justice: Public Safety Partnership and Community Policy Grants - COPS	16.710	2001SI1WX0095	<u>189,361</u>
Local Law Enforcement Block Grant	16.592	2000-LB-VX-1085	<u>82,902</u> 272,263
Total federal awards expenditures:			<u>\$ 2,432,254</u>

The accompanying notes are an integral part of this schedule.

Municipality of Cabo Rojo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Government and Nonprofit Organizations.

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 GRANTOR'S 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 federal awards received as a sub-recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

GONZÁLEZ TORRES & Co.

Certified Public Accountants and Consultants

Member of:

Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

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

Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Cabo Rojo for the year ended June 30, 2003, and have issued our report thereon dated January 19, 2004 in which the Municipality has not determined and recorded an estimate for the total municipal solid waste landfill post closure care costs, and the portion of the estimated total current costs of closure and post closure care of other solid waste landfill, as required by U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Municipality of Cabo Rojo's general purpose financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as item 2003-II-I and 2003-III-I.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Cabo Rojo Internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Cabo Rojo's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, as item 2003-II-I and 2003-III-I.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we consider item 2003-II-1 described above to be material weakness.

This report intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

January 19, 2004

The stamp number 1928269
was affixed to the original
of this report.



George Torres, PSC

GONZALEZ TORRES & CO., PSC

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Expires December 1, 2005

GONZÁLEZ TORRES & Co.

Certified Public Accountants and Consultants

Member of:

Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

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

Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Compliance

We have audited the compliance of Municipality of Cabo Rojo 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, 2003. Municipality of Cabo Rojo's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Cabo Rojo's management. Our responsibility is to express an opinion on Municipality of Cabo Rojo's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Cabo Rojo 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 Cabo Rojo compliance with those requirements.

In our opinion, the Municipality of Cabo Rojo 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, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2003-III-I.

Internal Control over Compliance

The management of the Municipality of Cabo Rojo is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Cabo Rojo's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment could adversely affect the Municipality of Cabo Rojo's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2003-III-I.

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

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

January 19, 2004

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Municipality of Cabo Rojo
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

II. Findings related to the financial statements reported in accordance with GAGAS:

Reference Number 2003-II-1

Area: Accounting principles

Condition and criteria:

The generally accepted government accounting standards require that landfill's closure and port-closure costs are estimated and included as liability in the government-wide financial statements. The Municipality of Cabo Rojo's management did not provide an estimate for the landfill's closure and post-closure as required by the GAGAS.

Cause and effect:

There is no proper recognition of debts in accordance with GAGAS. The financial statements do not recognize adequately the balance of debts.

Recommendation:

We recommend to obtain and recognize the closure and post closure in the financial statements.

III. Findings and questioned costs for federal awards:

Program: 14.228 Department of HUD-CDBG

Area: Cash management

2003-III-1

Condition and criteria:

In our examination, we found receipts and deposits tested, that disbursements were made over fifteen days after related funds were deposited. Cash management regulations require the Municipality to minimize the time between receipt of funds and the corresponding disbursements.

Cause and effect:

Failure to appropriately follow established controls and procedures.

Recommendation:

The Municipality should review its established controls and procedures in order to assure that program requirements are complied with.

Questioned costs:

None

Municipality of Cabo Rojo
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

SCHEDULE A

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

CORRECTIVE ACTION PLAN OF PRIOR AUDIT FINDINGS

Audit Report S/A 2002-03 Date: January, 2004
 Period Audited: July 1, 2002 to June 30, 2003
 Certify Correct: Hon. Santos E. Padilla Ferrer - Mayor
 Date: 2/23/2004



Employee Designated: 
 Name: Nereida Seda Vargas 23 February 2004
 Position: Internal Auditor
 Telephone: 787-851-1025 Exts. 337-344

FINDING	CORRECTIVE ACTION	RESULTS
<p>Findings related to Financial Statements reported in accordance with GAGAS: Area: Accounting records and reports:</p>		
<p>2002 II-1 A) The Municipality has not properly implement established internal controls and procedures to maintain an adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4(a) monthly report, which summarizes cash transactions of all funds of the Municipality. Our tests to the report disclosed:</p> <ol style="list-style-type: none"> 1) Transactions not posted or erroneously posted. 2) There are unreconciled or significant differences between cash blances in the report with applicable bank reconciliations of General Fund current account, Child Care (Food), Local Law, Secction 8, Special programs for the aging and Legislative Resolutions Accounts. 3) There is no reconciliation with accounting records including general ledger and subsidiary registers. 4) Several State and federal grants accounts disclosed a deficit or inappropriate balances due to excess cost charged, interfund loans or advance payments not reimbursed. A complete review of internal controls over state grants budgetary is recommended to maintain accurate balances and comply with laws and regulations. 	<p>The Municipality will perform an immediate and complete review of controls and procedures over financial records and reports in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, the following:</p> <ol style="list-style-type: none"> a) Review of 4(a) monthly report balances and reconciliation with bank reconciliations, investment register and other financial information maintained by state agencies. b) Reconciliation procedures between accounting records including general ledger and order and contract register. c) Reconciliation procedures between accounting records with federal financial assistance records. d) An employee will be encharged of the reconciliation of the general ledger, registers, and 4A Monthly Report. e) A complete review of all the balances in the 4(a) monthly report specialty legislative resolutions and loans from the Governmental Development Bank of Puerto Rico. 	<p>Complete As result of the implementation of the GASB#34 the Municipality reviewed all the balances of the 4A monthly report and conciled all of them with the bank reconciliations and other financial records.</p>

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FINDING	CORRECTIVE ACTION	RESULTS
<p>2002- II-2 Property, plant and equipment: As required by Minicipality's Internal control procedures and the Municipality Autonomous Law of 1991 as amended, the Municipality should maintain adequate records containing all transactions related to fixed assets properly reconciled with centralized accounting records and reports. Our analysis of inventory items as of June 30, 2002 showed the following:</p> <p>1) There are certain real estate projects not properly valued. Costs are based on contract or estimated values and not include other related costs such as architectural or inspection fees by engineers. Costs recorded in inventory records related to these projects can not be supported by adequate and sufficient supporting documentation.</p> <p>2) Land cost related to a real estate project was not capitalized and recorded in inventory records.</p> <p>3) Constructions in progress as of June 30, 2002 were not recorded in fixed assets records nor the Municipality has maintained adequate alternative records to track for project costs during construction.</p>	<p>The Municipality will establish and implement necessary internal controls and procedures to assure a reliable, accurate and complete subsidiary record of all owned properties including the development of constructions, and also contructions in already progress. A report including all the disbursement vouchers of all ended projects will be send to the property custodian from the Finance Department to assure posting of correct incurred amounts and in the correct accounting period. At present the Municipality is updating the property register and will review the property register implemented by OCAM to determine if it is operated adequately. The Finance Director should assign specific duties to an employee for the determination of the real estate costs including gathering, costs from different financing funds and determination of other related costs. This information will be sending to the Office of Property and record Office of Property and record in the inventory records.</p>	<p>Complete As result of the implementation of the requirements of the GASB#34 the Municipality bought a new program to record fixed asset and others related (FAS GOV). In June 2003 a complete inventory of the Municipality property was taken and the property register was updated, including construction in progress.</p>
<p>Area: Federal Funds Finding and questioned costs</p>		
<p>2002-III-1-U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228 - Cash Management</p> <p>In our examination of controls and procedures used in the administration of federal funds, we noted that for a sample of six receipts and deposits tested in three cases disbursements were made over fifteen days after related funds were deposited by State Pass-through Agency. Cash management regulations require the Minicipality to minimize the time between receipt of funds and the corresponding disbursement.</p>	<p>The Municipality will perform a complete review and analysis of the accounting cycle in the Federal Program Office to established internal controls and procedures to minimize the time between receipts and use of Federal funds and comply with applicable laws and regulations.</p>	<p>In progress</p>

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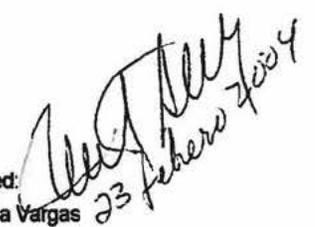
FINDING	CORRECTIVE ACTION	RESULTS
<p>2002-III-2 US Department of HUD Community Development Block Grant-State's Program-CFDA Number 14.228: Section 8 Housing Choice Vouchers CFDA Number 14.874-Special Tests and provisions; Level effort or earmarking</p>		
<p>Our tests to verify compliance with controls over financial records and reports disclosed the following:</p> <ol style="list-style-type: none"> 1) Revenues and expenditures transactions reported for SBGP and Section 8 programs on programs office do not reconcile with records on centralized accounting system. 2) There are significant differences between cash amounts reported in bank reconciliations, program general ledgers and centralized accounting systems records. 3) General ledgers maintained by federal programs are not balanced. 	<p>The Federal Programs Office will perform a complete and immediate review of all the internal controls and procedures over the financial records and reports to assure accuracy of financial data and compliance with programs requirements. Those include:</p> <ol style="list-style-type: none"> 1) Review of all the financial records and reports. 2) Reconciliations procedures between accounting records and external data. 3) Analysis of all the differences between cash amounts reported in bank reconciliations and program general ledger. 	<p>Complete We implemented new internal controls, reviewed the existant and performed a complete re-structure of the Federal Program Office,including the Section 8 Program.</p>
<p>2002-III-3 US Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228</p>		
<p>The Municipality is required to submit quarterly reports to the State Pass-through Agency for the financial transaction of each of the program years of the SBGP program. Our tests of eight reports revealed the following:</p> <ol style="list-style-type: none"> 1) In six cases the reports were submitted after the required date. 2) In two cases amounts included in the reports do not agree with the general ledgers. 	<p>The Municipality will establish procedures to ensure the compliance with the regulations and requirements of the State Pass-through Agency.</p>	<p>Complete</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

CORRECTIVE ACTION PLAN

Audit Report S/A 2002-03 Date: January, 2004
 Period Audited: July 1, 2002 to June 30, 2003
 Certify Correct: Hon. Santos E. Padilla Ferrer
 Date: 2/25/2004



Employee Designated: 
 Name: Nereida Seda Vargas
 Position: Internal Auditor
 Telephone: 787-851-1025 Exts. 337-344

FINDING	CORRECTIVE ACTION	RESULTS
<p>Findings related to the financial statements reported in accordance with GAGAS: Area: Accounting principles 2003-II-1</p> <p>The generally accepted accounting standards require that landfill's closure and post-closure costs are estimated and included as liability in the government-wide financial statements. The Municipality of Cabo Rojo's management did not provide as estimate for the landfill's closure and post-closure as required by the GAGAS.</p>	<p>In spite of not been determined and accounted as required by the US generally accepted accounting principles the total post closure care costs as of June 30, 2003, the Municipality has a reserve for the amount of \$13,780 and also approved an annual reserve of 1.5% of the total revenues from landfill to increase the reserve of landfill's costs. The estimated requirement to properly account it will be prepared soon by a consultant.</p>	<p align="center">In progress</p>
<p>Findings and questioned costs for federal awards: Program: 14.228 Department of HUD-CDBG Area: Cash management</p>		
<p>2003-III-1</p> <p>In our examination, we found receipts and deposits tested, that disbursements were over fifteen days after related funds were deposited. Cash management regulations require the Municipality to minimize the time between receipt of funds and the corresponding disbursements.</p>	<p>The Municipality will perform a complete review and analysis of the accounting cycle in the Federal Program Office to established internal controls and procedures to minimize the time between receipts and use of Federal funds and comply with applicable laws and regulations.</p>	<p align="center">In progress</p>