

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

MUNICIPIO DE CABO ROJO
AUDITORIA 2003-2004
30 DE JUNIO DE 2004



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MUNICIPALITY OF CABO ROJO

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

FISCAL YEAR ENDED JUNE 30, 2004

**Hon. Santos Padilla Ferrer
Mayor**

**Mr. Juan Carlos Padilla
Finance Director**

DIVISION REGULATORIA
E INTERVENCION

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MUNICIPALITY OF CABO ROJO

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MANAGEMENT DISCUSSION AND ANALYSIS

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

The following discussion and analysis of the Municipality of Cabo Rojo's financial performance provides an overview of the Municipality's financial activities for the fiscal period ended June 30, 2004. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2004 by \$27,904,847 (net assets).
- Revenues (not including special items) increased by 9% and expenses increased 23% in comparison with year 2003
- Net change in net assets amounted to \$1,709,433, a decrease of 11% with respect to prior year net change.

Highlights for Fund Financial Statements

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

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$12,585,627, an increase of \$1,258,368 in comparison with the prior year. Approximately 11% of the total combined fund balances is unreserved.
- The General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$1,252,797 and an unreserved fund balance of \$1,469,197. Unreserved fund balances increased 27% from prior year.

General Financial Highlights

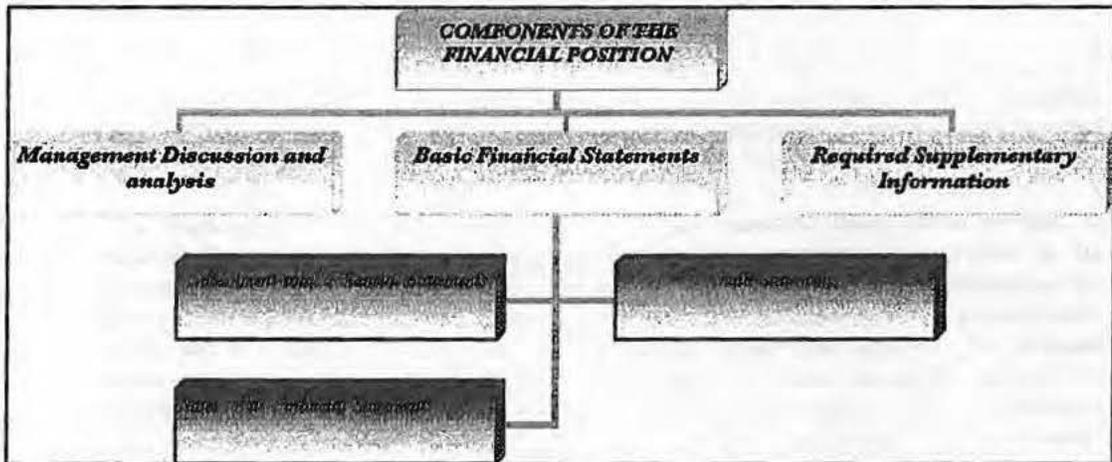
- The investment in capital assets as of June 30, 2004 was \$33,708,509 (net of depreciation).
- Long term debt increased to \$19,756,265, approximately 7% with respect to prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$252,184.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

- **Government-Wide Financial Statements**

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

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

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

- ***Fund Financial Statements***

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

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

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

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

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

Required supplementary information

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

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2004 and 2003:

TABLE 1

Summary Statement of Net Assets As of June 30,		
	Governmental Activities	
	2004	2003 As Restated
Assets		
Current and other assets	\$ 18,043,695	\$ 16,220,405
Capital assets	33,708,509	31,955,699
Total assets	\$ 51,752,204	\$ 48,176,104
Liabilities		
Current and other liabilities	\$ 4,091,092	\$ 3,634,467
Long term liabilities	19,756,265	18,346,223
Total liabilities	23,847,357	21,980,690
Net assets		
Invested in capital assets, net of related debt	25,230,191	25,003,934
Restricted	3,119,403	2,915,695
Unrestricted (deficit)	(444,747)	(1,724,215)
Total net assets	\$ 27,904,847	\$ 26,195,414

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 6% with respect to prior year. The most significant change was a reduction in unrestricted deficit due to a positive change in net assets related to unrestricted operation.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

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

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

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

As of June 30 2004 the Municipality presented an unrestricted net assets deficit. This deficit primarily arise from long term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt section of net assets. Therefore, are reported as part of the unrestricted net assets section.

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2004 and 2003:

TABLE 2

	Summa of Changes in Net Assets As of June 30,	
	Governmental Activities	
	2004	2003 As Restated
Program revenues:		
Fees, fines and charges for services	\$ 5,263,849	\$ 3,447,405
Operating grants and contributions	1,392,866	1,349,916
Capital grants and contributions	1,198,583	1,854,240
General revenues:		
Property taxes	5,452,698	4,703,372
Municipal license taxes	2,401,334	2,352,331
Grants and contributions not restricted to specific programs	4,537,984	4,648,504
Interest	253,072	348,924
Other	36,861	66,483
Total revenues	20,537,247	18,771,175
Expenses:		
General government	6,025,754	4,784,723
Public works and sanitation	7,317,351	5,619,499
Public safety	1,734,897	1,548,947
Culture and recreation	1,288,050	1,111,641
Health	777,668	724,133
Housing, welfare and community development	2,507,083	1,968,120
Education	272,430	290,247
Interest on long term debt	884,146	801,851
Total expenses	20,807,379	16,849,161
Special Items	1,979,565	-
Change in net assets	1,709,433	1,922,014
Net assets-beginning of year	26,195,414	24,273,400
Net assets-end of year	\$ 27,904,847	\$ 26,195,414

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

FIGURE 1

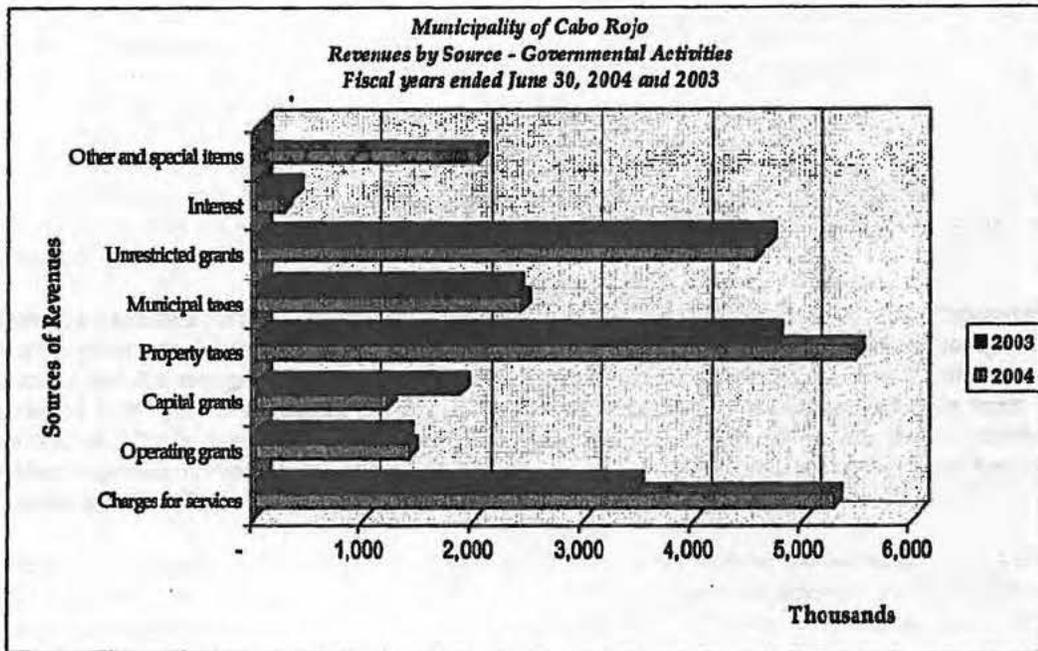
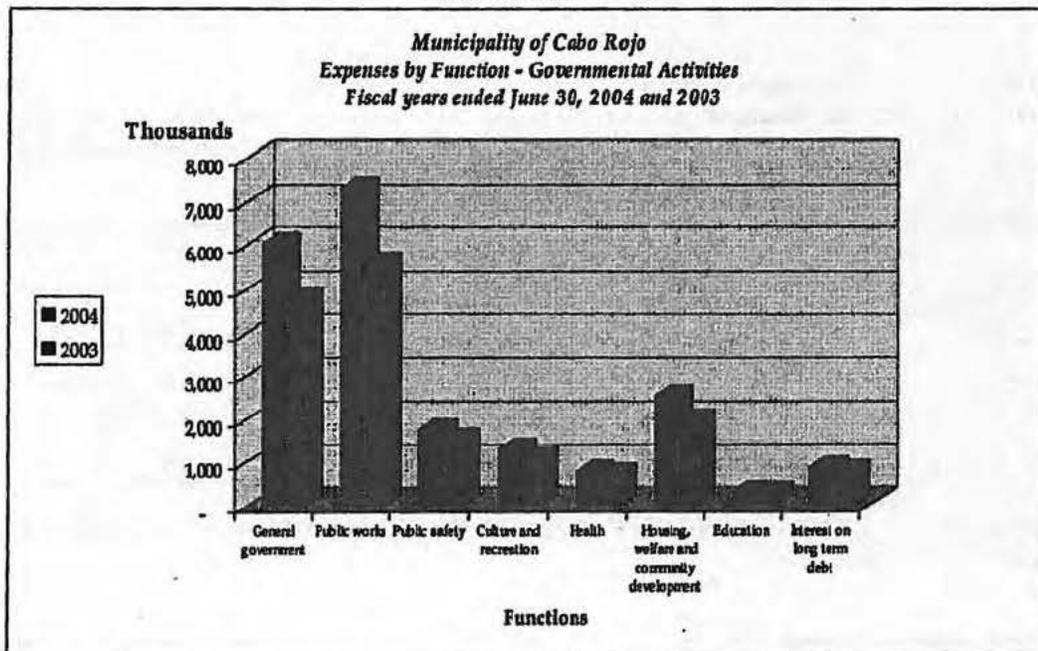


FIGURE 2



MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

Approximately 24% of the Municipality's revenues came from property taxes, 23% from fees and charges for services and 20% from unrestricted grants. The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 35%, general government with 29% and housing, welfare and community development with 12%. Program revenues of the Municipality covered 38% of total expenses.

With respect to prior year, revenues increased by approximately 9%. Significant increases include program revenues with 52%, due to additional collections of construction permits and property taxes with 16% due mainly to an increase in collections and additional revenues due to a positive final settlement from CRIM on taxes restricted for debt service

Expenses increased 23% in comparison with 2003 year. Significant increases were registered on general government with 26% due to increases in operational expenses as well as compensated absences and the recognition of a loss on disposition of capital assets. Public works and sanitation increased 30% due to additional capital assets maintenance and other noncapitalizable costs. An increase of 27% in housing, welfare and community development function was due to additional welfare expenses related to donations and others financed with external grants such as Section 8 Voucher and CDBG.

Changes in net assets for the year 2004 include additional resources from special items in the amount of \$1,979,565. These special items include \$1,078,599 of a property tax amnesty and \$900,966 of a legal case settlement from the Puerto Rico Electric Power Authority, a component unit of the Commonwealth of Puerto Rico.

As noted previously the increase in expenses over the increase in revenues caused a decrease of 11% in the net change in net assets with respect to prior year net change.

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

TABLE 3

Net Cost of Municipality's Governmental Activities				
Fiscal years ended Jun 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
General government	\$ 6,025,754	\$ 4,784,723	\$ 2,396,562	\$ 2,949,419
Public works and sanitation	7,317,351	5,619,499	4,614,570	2,224,620
Public safety	1,734,897	1,548,947	1,463,938	1,085,015
Culture and recreation	1,288,051	1,111,641	1,168,068	1,006,196
Housing, welfare and community development	2,507,083	1,968,120	1,633,205	1,379,575
Other	1,934,244	1,816,231	1,675,739	1,552,775
	<u>\$ 20,807,380</u>	<u>\$ 16,849,161</u>	<u>\$ 12,952,082</u>	<u>\$ 10,197,600</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$5,263,849) and other governments and organizations that subsidized certain programs with grants and contributions (\$2,591,449). The \$12,952,082 net cost of services was fully covered by other general revenues including property and municipal license taxes.

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2004, the governmental funds reported combined ending fund balances of \$12,585,627, a net increase of \$1,258,378 in comparison with the prior year. This increase was caused primarily by a net change in the general fund of \$1,252,797; \$86,103 in the debt service fund; (\$687,870) in the Capital Improvement Fund - \$4,425,000 Bond and \$607,338 in the other governmental funds. Of total combined fund balances, \$1,469,197 (11%) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 11% of total combined ending fund balances. For the year ended June 30, 2004, the fund balance of the general fund increased by \$1,252,797 when compared with the prior year; however, the net change in fund balance decreased by 19%. The principal components of the net increase of \$3,197,313 in revenues are an increase of \$1,875,659 in fees, fines and charges for services. The net increase in expenditures of \$ 3,292,989 was due to an increase of \$1,471,296 in the general government expenditures such as salaries, Christmas bonus, workmen's compensation and insurance; and of \$1,236,041 in public works and sanitation expenditures due to an increase in the expenditures related to repair and maintenance of roads, structures and equipment.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2003-2004 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 \$2,526,068 due to additional collections of property taxes, construction permits and of other revenues. Budget expenditures were increased by \$2,022,070, including an \$890,520 readjustment from prior years fund balance. Actual revenues were less than the revised budgeted revenues by \$(27,461) (net). The most significant variances were in fees, fines and charges for services, \$240,137; and \$(242,884) in intergovernmental revenues.

A positive variance of \$389,874 between revised budget and actual expenditures was due mainly to a net decrease of \$191,077 in general government and \$185,017 in public works and sanitation expenditures. The Municipality reported less expenditures than appropriations in those functions on payments for unemployment insurance, professional and nonprofessional services, utilities and the administration of the Municipal landfill. Actual revenues exceeded actual expenditures by \$252,184.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$33,708,509 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 5% over the prior year.

TABLE 4

Capital Assets, net As of June 0,		
	Governmental Activities	
	2004	2003
Non-depreciable assets:		
Land	\$ 3,281,517	\$ 2,622,007
Construction in progress	1,233,705	3,741,297
Depreciable assets:		
Land improvements	20,276	4,048
Buildings and buildings improvements	15,075,074	12,719,320
Infrastructure	11,532,504	10,058,537
Vehicles, machinery and equipment	2,565,433	2,810,490
Total	\$ 33,708,509	\$ 31,955,699

During the year, the Municipality completed various significant construction projects which were reported as decreases in construction in progress and are detailed as follows:

- Improvements to "Faro de los Morrillos" - \$1,113,480
- Improvements to "Plaza del Mercado" - \$1,532,608
- Construction of "Pedernales" bridge (infrastructure) - \$801,764

The Municipality's major capital projects that were still in construction as of June 30, 2004 are as follows:

- Construction of new City Hall - \$1,026,458
- Improvements to "Teatro Paraiso:" \$207,246

The Municipality acquired a total of \$659,700 of land during the fiscal year 2003-2004: \$173,700 for the new City Hall and \$486,000 for the extension of the public cemetery.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

The Municipality reported approximately \$2,460,747 in infrastructure additions during the year. These additions are composed mainly of capital improvements and donations from construction contractors of municipal streets and roads. Some of these improvements and donations are detailed as follows:

- "Camino La Pitahaya" - \$117,810
- "Urb. Sierra Linda y Ext." - \$177,810
- "Camino Parabueyon" - \$106,588
- "Camino Arsenio Zapata" - \$73,950

The Municipality's fiscal year 2005 consolidated capital budget calls for a significant amount of projects including improvements of commercial area of "Bo. Joyuda;" improvements to recreational facilities including the basketball courts of "Urb. Villa Aida," "Urb. Villa del Carmen," and of "Bo. Miradero Sector Sabana Alta;" improvements to "Teatro Paraiso" and "Escuela Curry," construction of new City Hall, construction of the "Las Magas" bridge; the start of the second phase of the improvements to "Faro Los Murillos" and capital improvements to municipal streets, roads and lighting system. 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 P to the financial statements.

Long term debt

At year-end, the Municipality had \$15,292,930 in general and special bonds and notes, an increase of 7% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2004 and 2003:

TABLE 5

	Outstanding Long-term Debt	
	As of June 30,	
	Governmental Activities	
	2004	2003
General and special obligation bonds and notes	\$ 15,292,930	\$ 13,954,375
Note payable to CRIM - LIMS	554,711	611,905
Note Payable to CRIM – prior years delinquent accounts	764,868	960,664
Note payable to Puerto Rico Department of Labor	79,076	180,009
Obligation under capital leases	56,848	21,350
Compensated absences	2,458,627	2,083,299
Christmas Bonus	386,160	319,801
Claims and judgments	90,665	213,965
Payable to CRIM – property tax advances	72,380	-
Others	-	854
Total	\$ 19,756,265	\$ 18,345,368

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

The increase in the general and special obligation bonds and notes is due to the issuance by the Municipality of four new municipal general obligation bonds during the year. The decrease in claims and judgments results from the payment during the year of the majority of the judgments that were outstanding as of June 30, 2003. Finally, the increase in other liabilities is due to the acquisition by the Municipality of four new photocopiers through the use of capital leases. More detailed information about the Municipality's long term liabilities is presented in Note F to the financial statements.

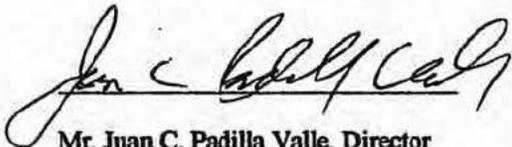
ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2004-2005 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 12.4%, which compares with the Commonwealth rate of 10.3%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2005 are \$14,979,460, an increase of approximately 12% 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 380 employees, increase of \$50 per employee for medical plans benefits an increase from \$750 to \$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 2005 fiscal year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at P O Box 1380, Cabo Rojo, Puerto Rico 00623.



Mr. Juan C. Padilla Valle, Director
Finance Department

INDEPENDENT AUDITORS' REPORT

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** ("Municipality") as of and for the year ended June 30, 2004, 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 issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 a liability estimate of the landfill's closure and post closure care costs at June 30, 2004. The accompanying government-wide financial statement did not include the liability for these costs. Accounting principles generally accepted in the United States of America require that landfill's closure and port-closure costs are estimated and included as liability in the government-wide financial statement, which would decrease the assets and net assets and change the revenues in the government-wide financial statements. The amount by which this departure would affect the assets, net assets, and revenues of the government-wide financial statement is not reasonably determinable. The note "G" of the financial statements describes more details regarding the landfills costs.

In our opinion, except for the effects, if any, of not providing an adequate liability estimate of the landfill's closure and post closure care costs for the government-wide financial statement as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government-wide financial statement of **Municipality of Cabo Rojo**, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the, each major funds and the aggregate remaining fund information of **Municipality of Cabo Rojo**, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2004, on our consideration of the **Municipality of Cabo Rojo** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 55 through 58, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

November 23, 2004
San Juan, Puerto Rico

González Torres & Co. CSP
GONZÁLEZ TORRES & CO., CSP
License 96
Expires December 1, 2005

The stamp number 2017679
was affixed to the original of this report.



Cash and cash equivalents
 Accounts receivable
 Inventory
 Prepaid expenses
 Other assets
 Total assets

BASIC FINANCIAL STATEMENTS

Total liabilities and equity
 Total liabilities
 Total equity

MUNICIPALITY OF CABO ROJO

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 6,736,270
Receivables, net	
Municipal license taxes	3,707
Rents and construction permits	394,001
Due from:	
Commonwealth Government (note C1)	517,771
Federal Government (note C1)	184,605
Restricted assets:	
Cash and cash equivalents	978,077
Cash with fiscal agents	9,156,166
Deferred bond issuance costs	73,098
Capital assets (note E):	
Land and construction in progress	4,515,222
Other capital assets, net	29,193,287
Total capital assets, net	33,708,509
 Total assets	 \$ 51,752,204
LIABILITIES	
Accounts payable and accrued liabilities	1,638,667
Interest payable	378,897
Due to:	
Commonwealth Government	9,108
Federal Government	48,485
Deferred revenues	
Municipal license taxes (note I)	2,000,749
Federal grants	15,186
Long term liabilities (note F) :	
Due within one year	2,158,226
Due in more than one year	17,598,039
Total liabilities	23,847,357
NET ASSETS	
Invested in capital assets, net of related debt	25,230,191
Restricted for:	
Capital projects	650,173
Debt service	2,257,737
Other specified purposes	211,493
Unrestricted (deficit)	(444,747)
Total net assets	\$ 27,904,847

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2004**

Functions	Expenses	Program Revenues			Total
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 6,025,754	\$ 3,259,383	\$ 274,778	\$ 95,031	\$ (2,396,562)
Public works and sanitation	7,317,351	1,833,257	-	869,524	(4,614,570)
Public safety	1,734,897	-	270,959	-	(1,463,938)
Culture and recreation	1,288,050	83,200	36,783	-	(1,168,067)
Health	777,668	-	-	-	(777,668)
Housing, welfare and community development	2,507,083	88,009	551,841	234,028	(1,633,205)
Education	272,430	-	258,505	-	(13,925)
Interest on long term debt	884,146	-	-	-	(884,146)
Total	\$ 20,807,379	\$ 5,263,849	\$ 1,392,866	\$ 1,198,583	(12,952,081)

General revenues

Taxes	
Property taxes	5,452,698
Municipal license taxes	2,401,334
Grants and contributions not restricted to specific programs	4,537,984
Interest	253,072
Other	36,861
Special Items	
Property taxes-amnesty	1,078,599
Legal case settlement-PREPA	900,966
Total general revenues and special items	14,661,514
Change in net assets	1,709,433
Net assets-beginning, as restated	26,195,414
Net assets-ending	\$ 27,904,847

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	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	\$ 6,736,270	\$ -	\$ -	\$ -	\$ -	\$ 6,736,270
Receivables, net:						
Municipal license taxes	3,707	-	-	-	-	3,707
Rents and construction permits	394,001	-	-	-	-	394,001
Due from:						
Commonwealth Government (note C1)	401,980	-	90,087	-	25,704	517,771
Federal Government (note C1)	-	97,686	-	-	86,919	184,605
Other funds	113,979	-	-	-	-	113,979
Advances to other funds	90,000	-	-	-	-	90,000
Restricted assets:						
Cash and cash equivalents	-	13,474	-	-	964,603	978,077
Cash with fiscal agents	-	-	2,543,652	3,499,992	3,112,522	9,156,166
Total assets	<u>\$ 7,739,937</u>	<u>\$ 111,160</u>	<u>\$ 2,633,739</u>	<u>\$ 3,499,992</u>	<u>\$ 4,189,748</u>	<u>\$ 18,174,576</u>
LIABILITIES						
Accounts payable and accrued liabilities	\$ 767,669	\$ 57,713	\$ -	\$ 118,628	\$ 694,658	\$ 1,638,668
Matured bonds and interest payable	-	-	1,332,532	-	-	1,332,532
Due to:						
Commonwealth Government	9,108	-	-	-	-	9,108
Federal Government	-	-	-	-	48,485	48,485
Other funds	-	53,447	-	-	60,532	113,979
Deferred revenues:						
Municipal license taxes (note I)	2,000,749	-	-	-	-	2,000,749
Intergovernmental-Commonwealth Govern	193,080	-	-	-	-	193,080
Federal grants	-	-	-	-	15,186	15,186
Rents and construction permits	147,162	-	-	-	-	147,162
Advances from other funds	-	-	-	-	90,000	90,000
Total liabilities	<u>3,117,768</u>	<u>111,160</u>	<u>1,332,532</u>	<u>118,628</u>	<u>908,861</u>	<u>5,588,949</u>
FUND BALANCES						
Reserved for:						
Encumbrances	283,569	-	-	-	-	283,569
Debt service	-	-	1,301,207	-	-	1,301,207
Capital projects	1,346,397	-	-	3,381,364	2,766,176	7,493,937
Other specified purposes	1,433,006	-	-	-	514,711	1,947,717
Advances	90,000	-	-	-	-	90,000
Unreserved	1,469,197	-	-	-	-	1,469,197
Total fund balances	<u>4,622,169</u>	<u>-</u>	<u>1,301,207</u>	<u>3,381,364</u>	<u>3,280,887</u>	<u>12,585,627</u>
Total liabilities and fund balances	<u>\$ 7,739,937</u>	<u>\$ 111,160</u>	<u>\$ 2,633,739</u>	<u>\$ 3,499,992</u>	<u>\$ 4,189,748</u>	<u>\$ 18,174,576</u>

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, 2004

Total governmental fund balances:		\$	12,585,627
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			33,708,509
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Deferred bond issuance costs			73,098
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Rents and business permits receivable	\$	147,162	
Christmas bonus		<u>193,080</u>	340,242
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:			(43,240)
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	\$	14,296,054	
Note payable to CRIM-LIMS		554,711	
Note payable to CRIM-financing of delinquent accounts		764,868	
Note payable to PR Department of Labor		79,076	
Obligation under capital leases		56,848	
Compensated absences		2,458,627	
Christmas bonus		386,160	
Judgment and legal claims		90,665	
Payable to CRIM-excess of property tax advances		<u>72,380</u>	(18,759,389)
Net assets of governmental activities:		\$	<u>27,904,847</u>

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2004

	General	Community Development Block Grant Program	Debt Service Fund	Capital Improvement Fund-\$4,425,000 Bond	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property taxes (note H)	\$ 3,810,349	\$ -	\$ 1,730,581	\$ -	\$ -	\$ 5,540,930
Municipal license taxes (note I)	2,401,334	-	-	-	-	2,401,334
Intergovernmental (note J)						
Commonwealth government	6,229,129	-	-	-	440,404	6,669,533
Federal government	-	909,215	-	-	948,257	1,857,472
Fees, fines and charges for services	3,622,673	-	-	-	-	3,622,673
Interest	70,676	-	15,946	95,759	70,691	253,072
Other	12,417	-	-	-	-	12,417
Total revenues	16,146,578	909,215	1,746,527	95,759	1,459,352	20,357,431
Expenditures						
Current:						
General government	5,747,577	95,031	-	-	-	5,842,608
Public works and sanitation	5,967,947	122,314	-	-	351,557	6,441,818
Public safety	1,404,380	-	-	-	332,402	1,736,782
Culture and recreation	897,555	-	-	-	40,050	937,605
Health	777,668	-	-	-	-	777,668
Housing, welfare and community development	1,587,964	197,419	-	-	628,877	2,414,260
Education	17,134	-	-	-	251,587	268,721
Capital outlays	375,434	494,451	-	687,870	1,532,264	3,090,019
Debt service						
Principal	-	-	1,166,445	-	-	1,166,445
Interest	-	-	744,619	-	-	744,619
Bond issuance costs	-	-	-	-	13,083	13,083
Total expenditures	16,775,659	909,215	1,911,064	687,870	3,149,820	23,433,628
Excess (deficiency) of revenues over expenditures	(629,081)	-	(164,537)	(592,111)	(1,690,468)	(3,076,197)
Other financing sources (uses)						
General obligation bonds	-	-	-	-	2,355,000	2,355,000
Transfers in	182,787	-	37,825	-	13,333	233,945
Transfers out	(51,158)	-	(16,501)	(95,759)	(70,527)	(233,945)
Total other financing sources (uses)	131,629	-	21,324	(95,759)	2,297,806	2,355,000
Special Items (note O)						
Property taxes - amnesty	849,283	-	229,316	-	-	1,078,599
Legal case settlement - PREPA	900,966	-	-	-	-	900,966
Total special items	1,750,249	-	229,316	-	-	1,979,565
Net change in fund balance	1,252,797	-	86,103	(687,870)	607,338	1,258,368
Fund balance at beginning of year, as restated (note K)	3,369,372	-	1,215,104	4,069,234	2,673,549	11,327,259
Fund balance at end of year	\$ 4,622,169	\$ -	\$ 1,301,207	\$ 3,381,364	\$ 3,280,887	\$ 12,585,627

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, 2004

Net change in fund balances-total governmental funds:		\$ 1,258,368
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	\$ 3,276,274	
Less: current year depreciation	<u>(1,503,402)</u>	1,772,872
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:		
		(357,103)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Rents and bussiness permits revenues	\$ 147,162	
Christmas Bonus Reimbursement	193,080	
Donated capital assets	<u>293,442</u>	633,684
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Property taxes	\$ (72,380)	
Puerto Rico Electric Power Authority (PREPA)-prior year	(203,516)	
CRIM-prior year	(15,852)	
Christmas Bonus-prior year	<u>(159,900)</u>	(451,648)
Proceeds from general obligation bonds is an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		
		(2,355,000)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments (net change)		150,000
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	\$ 1,016,445	
Other long term liabilities	<u>1,002,708</u>	2,019,153
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	\$ 13,083	
Amortization of bond issuance costs	<u>(8,131)</u>	4,952
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	\$ (532,356)	
Judgment and legal claims	(39,700)	
Christmas bonus	(386,160)	
Accrued interest (net change)	4,277	
Others	<u>(11,906)</u>	(965,845)
Change in net assets of governmental activities:		<u><u>\$ 1,709,433</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

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 fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of 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:

- 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.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In fiscal year 2003-2004 the Municipality adopted Statement No. 39 "*Determining Whether Certain Organizations Are Component Units - an amendment of GASB 34 Statement No. 14*". This Statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as components units based on the nature and significance of their relationship with the primary government. A legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government.

The Statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

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

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

Management Discussion and Analysis

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

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

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

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

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.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Fund Statements

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

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. 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.

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.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

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

Required Supplementary Information:

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

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

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

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent in the capital improvement fund represents the undisbursed proceeds from the \$4,425,000 bond which is maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico (GDB). Restricted 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 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".

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

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. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Description</u>	<u>Years</u>
Land improvements	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.

9. Deferred bond issuance costs

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

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. *Compensated absences*

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

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

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

11. *Fund balances and Net Assets*

a. Fund balances:

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

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Debt Service:	Represents net assets available to finance future debt service payments.
Capital Projects:	Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.
Other specified purposes:	Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments
Advances:	Represent the non current portion of interfund loans.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

b. Net assets

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

Invested in capital assets, net of related debt: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net assets: Represents net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

Unrestricted net assets: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are nor reported on the face of the statement of net assets.

12. *Interfund transactions*

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

13. *Risk financing*

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

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Use of estimates

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

15. Future adoption of accounting pronouncements

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

Statement	To be Adopted in Fiscal year ended,
40 Deposit and Investment Risk Disclosure - an amendment of GASB Statement No. 3	June 30, 2005
42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	June 30, 2006
43 Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans	June 30, 2008
44 Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement No. 1	June 30, 2006
45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	June 30, 2009

The Municipality's management has concluded that the adoption of these statements will not have a significant impact on the Municipality's basic financial statements.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B - DEPOSITS

The Municipality maintains its cash deposits in commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. The table presented below discloses the level of custody risk assumed by the Municipality based upon how its deposits were insured or secured with collateral at June 30, 2004:

- Category 1:** Insured or collateralized with securities held by the Secretary of Treasury agent's in the Municipality's name.
- Category 2:** Collateralized with securities held by the pledging financial institution's trust department or its agents in the Municipality's name.
- Category 3:** Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The bank balances and carrying amount of deposits with financial institutions as of June 30, 2004 were as follows:

	Category			Bank balance	Carrying Amount
	1	2	3		
Deposits in commercial banks	\$ 8,305,205	\$ -	\$ -	\$ 8,305,205	\$ 7,714,347
Deposits in governmental banks	-	-	9,156,166	9,156,166	9,156,166
	<u>\$ 8,305,205</u>	<u>\$ -</u>	<u>\$ 9,156,166</u>	<u>\$ 17,461,371</u>	<u>\$ 16,870,513</u>

Reconciliation to government-wide statement of net assets:

	Unrestricted	Restricted	Total
Carrying amount of deposits in commercial banks	\$ 6,736,270	\$ 978,077	\$ 7,714,347
Carrying amount of deposits in governmental banks	-	9,156,166	9,156,166
	<u>\$ 6,736,270</u>	<u>\$ 10,134,243</u>	<u>\$ 16,870,513</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2004 follows:

	Commonwealth Entities	Federal Government
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	\$ 90,087	\$ -
Municipal Revenue Collection Center (CRIM) – property tax amnesty	208,900	-
Puerto Rico Department of Family – Child Care	-	47,612
US Department of Justice-COPS in School	-	16,048
Office of Commissioner of Municipal Affairs – CDBG	-	97,686
US Department of Housing and Urban Development – Section 8	-	23,259
Puerto Rico Department of Education	25,704	
Puerto Rico Department of Treasury – Christmas bonus reimbursement	193,080	-
	\$ 517,771	\$ 184,605

The amount due from Puerto Rico Department of Treasury – Christmas bonus (\$193,080) is recorded as deferred revenue in the governmental funds statements (general fund) since is not available as required by current standards.

2. Amounts due to governmental entities as of June 30, 2004 follows:

	Commonwealth Entities	Federal Government
Puerto Rico Aqueduct and Sewer Authority (PRASA)	\$ 6,553	\$ -
US Department of Housing and Urban Development – Section 8	-	48,485
Puerto Rico General Services Administration	2,555	-
	\$ 9,108	\$ 48,485

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

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:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major fund-CDBG	\$ 53,447
General Fund	Other governmental funds-Cops in school	16,160
General Fund	Other governmental funds-Child Care	37,817
General Fund	Other governmental funds-other special funds	<u>6,555</u>
Total:		<u>\$ 113,979</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 restricted 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.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE E - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2004 is as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,622,007	\$ 659,700	\$ 190	\$ 3,281,517
Construction in progress	3,741,297	940,259	3,447,851	1,233,705
Total capital assets not being depreciated:	6,363,304	1,599,959	3,448,041	4,515,222
Capital assets, being depreciated:				
Land improvements	4,187	16,645	-	20,832
Buildings and building improvements	16,072,945	2,794,185	-	18,867,130
Infrastructure	13,665,487	2,460,747	506,967	15,619,267
Vehicles, machinery and equipment	5,888,555	189,630	249,753	5,828,432
Total capital assets being depreciated	35,631,174	5,461,207	756,720	40,335,661
Less accumulated depreciation for:				
Land improvements	139	417	-	556
Buildings and building improvements	3,353,625	438,431	-	3,792,056
Infrastructure	3,606,952	654,375	174,564	4,086,763
Vehicles, machinery and equipment	3,078,063	410,179	225,243	3,262,999
Total accumulated depreciation	10,038,779	1,503,402	399,807	11,142,374
Total capital assets being depreciated, net	25,592,395	3,957,805	356,913	29,193,287
Governmental activities capital assets, net	\$ 31,955,699	\$ 5,557,764	\$ 3,804,954	\$ 33,708,509

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

Governmental activities:

General government	\$ 26,334
Public works and sanitation	953,877
Public safety	73,152
Culture and recreation	350,446
Welfare and community development	93,917
Education	5,676

Total depreciation expense, governmental activities **\$ 1,503,402**

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - 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, 2004:

	Balance at July 1, 2003 (as restated)	Increases	Decreases	Balance at June 30, 2004	Due within one year
General, Special Obligations Bonds and Notes	\$ 13,954,375	\$ 2,355,000	\$ 1,016,445	\$ 15,292,930	\$ 1,173,500
Note payable to CRIM- LIMS	611,905	-	57,194	554,711	60,648
Note payable to CRIM - Financing of delinquent accounts	960,664	-	195,796	764,868	107,471
Note payable to PR Department of Labor	180,009	-	100,933	79,076	79,076
Obligation under capital leases	21,350	43,599	8,101	56,848	16,422
Compensated absences	2,083,299	532,356	157,028	2,458,627	171,904
Christmas bonus	319,801	386,160	319,801	386,160	386,160
Claims and judgments	213,965	39,700	163,000	90,665	90,665
Payable to CRIM- excess of property tax advances over actual collections	-	72,380	-	72,380	72,380
Other	854	-	854	-	-
	<u>\$ 18,346,222</u>	<u>\$ 3,429,195</u>	<u>\$ 2,019,152</u>	<u>\$ 19,756,265</u>	<u>\$ 2,158,226</u>

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2004 amount to \$15,292,930. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

A detail of the general and special obligation bonds and notes as of June 30, 2004 follows:

	Outstanding Amount
1983 public improvement bonds of \$141,000 due in annual installments ranging from \$3,000 to \$11,000 through January 1, 2007; bearing interest at 5%	\$ 30,000
1984 general obligation bonds of \$293,000 due in annual installments ranging from \$7,000 to \$21,000 through January 1, 2008; bearing interest at 5%	75,000
1985 public improvement bonds of \$300,000 due in annual installments ranging from \$4,000 to \$22,000 through January 1, 2011; bearing interest at 6.125%	133,055
1991 public improvement bonds of \$770,000 due in annual installments ranging from \$30,000 to \$90,000 through July 1, 2006; bearing interest at rates ranging from 3.263% to 6.363% (6.263% at June 30, 2004)	235,000
1991 public improvement bonds of \$880,000 due in annual installments ranging from \$20,000 to \$61,000 through January 1, 2016; bearing interest at 5%	565,000
1992 public improvement bonds of \$454,000 due in annual installments ranging from \$10,000 to \$32,000 through January 1, 2017; bearing interest at 5%	309,000
1995 public improvement bonds of \$1,145,000 due in annual installments ranging from \$55,000 to \$135,000 through July 1, 2008; bearing interest at rates from 4.70% to 6.875% (5.8% at June 30, 2004)	580,000
1995 public improvement bonds of \$435,000 due in annual installments ranging from \$30,000 to \$60,000 through July 1, 2005; bearing interest at rates ranging from 4.70% to 6.63% (5.8% at June 30, 2004)	115,000
1996 public improvement bonds of \$105,000 due in annual installments ranging from \$5,000 to \$10,000 through July 1, 2010; bearing interest at rates ranging from 4.70% to 6.63% (5.8% at June 30, 2004)	65,000

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

	Outstanding Amount
1996 public improvement bonds of \$765,000 due in annual installments ranging from \$15,000 to \$75,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58% (5.8% at June 30, 2004)	615,000
1996 general obligation notes of \$1,735,000 due in annual installments ranging from \$40,000 to \$165,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58% (5.8% at June 30, 2004)	1,395,000
1994 public improvement bonds of \$300,000 due in annual installments ranging from \$21,000 to \$34,000 through January 1, 2009; bearing interest at 4.875%	156,000
1999 general obligation bonds of \$1,205,000 due in annual installments ranging from \$135,000 to \$215,000 through January 1, 2005; bearing interest at rates ranging from 4.865% to 6% (5.29% at June 30, 2004)	410,000
1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 4.865% to 6.56% (5.29% at June 30, 2004)	760,000
1999 general obligation bonds of \$1,310,000 due in annual installments ranging from \$50,000 to \$140,000 through July 1, 2013; bearing interest rates ranging from 4.865% to 6.11% (5.29% at June 30, 2004)	1,020,000
1999 general obligation bonds of \$405,000 due in annual installments ranging from \$70,000 to \$95,000 through July 1, 2004; bearing interest rates ranging from 2.70% to 7.81% (2.8% at June 30, 2004)	95,000
1999 general obligation bonds of \$2,040,000 due in annual installments ranging from \$80,000 to \$215,000 through July 1, 2014; bearing interest rates ranging from 2.70% to 7.81% (2.8% at June 30, 2004)	1,690,000
1995 public improvement bonds of \$500,000 due in annual installments ranging from \$40,000 to \$61,000 through January 1, 2010; bearing interest at 4.875%	328,000

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

	<u>Outstanding Amount</u>
2002 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest rates ranging from 2.70% to 5.60% (2.8% at June 30, 2004)	4,270,000
2003 general obligation bonds of \$305,000 due in annual installments ranging from \$35,000 to \$50,000 through July 1, 2010; bearing interest rates ranging from 5.00% to 6.00% (6% at June 30, 2004)	305,000
2003 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest rates ranging from 2.36% to 5.00% (2.36% at June 30, 2004)	505,000
2003 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest rates ranging from 2.36% to 5.00% (2.36% at June 30, 2004)	545,000
2003 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest rates ranging from 5.00% to 6.00% (5% at June 30, 2004)	1,000,000
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% (5% at June 30, 2004)	75,000
1986 Lottery Special Fund loan of \$150,000 due in quarterly installments of \$1,875 through July 1, 2006; bearing interest at 8%	<u>16,875</u>
	<u>\$ 15,292,930</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2004 follows:

June 30	Principal	Interest
2005	\$ 1,173,500	\$ 763,044
2006	1,153,500	703,846
2007	946,875	655,229
2008	875,000	610,853
2009	922,000	562,514
2010-2014	3,972,055	2,184,080
2015-2019	2,585,000	1,252,740
2020-2024	2,045,000	696,532
2025-2029	1,620,000	132,810
Totals	<u>\$ 15,292,930</u>	<u>\$ 7,561,648</u>

3. Other long-term liabilities

Amount

Note payable to CRIM (LIMS) - On July 24, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$691,648 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$46,382, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

\$ 554,711

June 30	Principal	Interest
2005	\$ 60,648	\$ 32,116
2006	64,312	28,454
2007	68,194	24,571
2008	72,312	20,453
2009	76,678	16,086
2010-2012	212,567	19,342
Totals	<u>\$ 554,711</u>	<u>\$ 141,022</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

Amount

Note payable to CRIM (Financing of delinquent accounts)— On March 15, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$960,664 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

\$ 764,868

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 107,471	\$ 45,712
2006	-	42,731
2007	-	42,731
2008	-	42,731
2009	11,304	42,398
2010-2014	68,940	199,569
2015-2019	95,331	173,177
2020-2024	131,826	136,683
2025-2029	182,291	86,217
2030-2032	167,705	20,250
Totals	<u>\$ 764,868</u>	<u>\$ 832,199</u>

Note payable to Puerto Rico Department of Labor - On March 31, 2002 the Municipality entered into a financing agreement with the PR Department of Labor for a total amount of \$322,927 for unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the municipality. The agreement is in the form of a non-interest bearing note (imputed interest of 5%) payable in annual installments of \$8,970 and due in March 31, 2005. The note balance as of June 30, 2004 is net of an unamortized discount of \$1,657 and is being paid from unrestricted funds.

\$ 79,076

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

	<u>Amount</u>
Obligation under capital lease – The Municipality is obligated under a capital lease with a third party that expires on 2006. As of June 30, 2004 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%.	\$ 14,986
Obligation under capital lease – The Municipality is obligated under a capital lease with a third party that expires on 2009. As of June 30, 2004 the capitalized cost of capital leased equipment amounted to \$24,093 and is being paid in monthly installments of \$441 including interest at 3.75%.	\$ 24,093
Obligation under capital lease – The Municipality is obligated under a capital lease with a third party that expires on 2009. As of June 30, 2004 the capitalized cost of capital leased equipment amounted to \$19,506 and is being paid in monthly installments of \$369 including interest at 4.75%.	\$ 17,769

The present value of future minimum lease payments of all three leases as of June 30, 2004 is as follows:

Year ending June 30,	<u>Amount</u>
2005	\$ 16,975
2006	16,975
2007	11,530
2008	9,716
2009	7,504
Total minimum lease payments	62,700
Less: Amount representing interest	(5,852)
Present value of minimum lease payments	\$ 56,848

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F - LONG TERM DEBT - Continued

	Amount
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	\$ 2,458,627
Christmas Bonus - represent the accrued portion corresponding to fiscal year 2003-2004 of the Christmas bonus to be paid in December 2004	\$ 386,160
Claims and judgments - represent the final settlement of two legal cases paid subsequent to June 30, 2004. The awarded amount of \$90,665 was paid with unrestricted funds.	\$ 90,665
Payable to CRIM - represents the balance owed to CRIM at June 30, 2004 for excess of advances of property tax and other subsidies over final amount of property tax collections for the fiscal year ended June 30, 2004.(see note H). 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).	\$ 72,380

NOTE G - 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. 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 accounting principles generally accepted in the United States as of June 30, 2004.

The Municipality also has a solid waste landfill, which is in operation as of June 30, 2004. 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 accounting principles generally accepted in the United States as of June 30, 2004. The final effect of these matters cannot be properly determined. The Municipality has reserved \$14,507 as of June 30, 2004 to finance future closure and post-closure care costs of this solid waste landfill. This reserve has been created by legislation.

MUNICIPALITY OF CABO ROJO

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H - PROPERTY TAXES

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

The tax rates in force as of June 30, 2004 are 8.53% for real property (of which 8.33% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.53% for personal property (of which 6.33% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 7.5% and 5.5%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6% on real property and 4% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 1.5% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

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

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 \$72,380 resulting from the final settlement for fiscal year 2003-2004. The total amount is recorded as a long term debt in the government-wide statement since will not be paid with expendable available resources.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE I - 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, 2004 the tax rates were as follows:

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable representing uncollected tax as of June 30, 2004 on filed tax returns follows:

	Amount
Receivable as of June 30, 2004	\$ 121,252
Less: allowance for uncollectible	(117,545)
	\$ 3,707

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$ 2,000,748 are recorded as deferred revenues.

NOTE J - INTERGOVERNMENTAL REVENUES

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

	Amount
Amount of municipal subsidies and equalization fund send by CRIM	\$ 3,937,246
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,699,750
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	274,115
Reimbursement from Commonwealth Government of Law 52 program expenditures	274,778
Reimbursement from Commonwealth Government - other programs expenditures	43,240
	\$ 6,229,129

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE K - FUND BALANCE AND NET ASSETS RESTATEMENTS

1. Fund balances

Certain special funds with self-imposed restrictions in the amount of \$1,950,163 and previously reported as special revenue and capital project funds were reclassified to the general fund. In addition, the beginning fund balance of the general fund has been restated to correct a net overstatement of accounts payable to suppliers in the amount of \$83,302, an overstatement receivable of \$180,404 and an understatement of deferred revenues in the amount of \$3,960. The following schedule reconciles the fund balance at July 1, 2003 as previously reported to the beginning fund balance, as restated:

Fund	Prior period adjustments			Balance at beginning of year, as Restated
	Balance at beginning of year, as previously reported	Fund reclassifications	Correction of errors	
General Fund	\$ 1,361,949	\$ 1,950,163	\$ 57,260	\$ 3,369,372
Debt service fund	1,395,508	-	(180,404)	1,215,104
Capital Improvement Fund- \$4,425,000 Bond	4,069,234	-	-	4,069,234
Other governmental funds	4,601,630	(1,950,163)	22,082	2,673,549
Total	<u>\$ 11,428,321</u>	<u>\$ -</u>	<u>\$ (101,062)</u>	<u>\$ 11,327,259</u>

2. Net assets

The following summarizes changes to the net assets as previously reported in the prior year government-wide statements:

	Amount
Net assets at beginning of year as previously reported:	\$ 26,541,997
Restatements:	
Net overstatement of accounts payable to suppliers	83,302
Receivable-Christmas bonus reimbursement not recorded	159,900
Overstatement of debt for excess of property tax advances over collections	533,418
Overstatement of note payable to PR Department of Labor	8,365
Understatement of deferred revenues	(3,960)
Understatement of accrued interest payable	(47,517)
Overstatement of property tax receivable-debt service fund	(180,404)
Note payable to CRIM (LIMS) not recorded	(611,905)
Overstatement of note payable to CRIM-delinquent accounts	32,018
Christmas bonus payable not recorded	(319,800)
Net assets at beginning of year as restated:	<u>\$ 26,195,414</u>

MUNICIPALITY OF CABO ROJO

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

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 and 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.

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.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE L - RETIREMENT PLAN - Continued

2. Funding policy

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

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

Fiscal year ended:	Law No. 447	System 2000
2004	\$ 422,775	\$ 103,374
2003	\$ 445,997	\$ 22,352
2002	\$ 441,278	\$ 23,924

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, 2004 of approximately \$ 3,776,141 for construction, improvements or renovation of certain municipal facilities and \$142,976 for construction, improvements or renovation of others 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.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE N - CONTINGENCIES- Continued

2. *Judgments and legal claims*

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, 2004 and not to be covered by insurance, the Municipality accrued \$ 90,665 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 - SPECIAL ITEMS

1. *Property tax amnesty*

Law No. 74 of March 1, 2004 approved by the Commonwealth's Legislature (as amended by Law No. 131 of June 1, 2004) granted to taxpayers (for the period March 1, 2004 to June 30, 2004) an amnesty for payment of real and personal property tax debts. As a result, the CRIM distributed to the Municipality \$1,078,599 on property tax collections as of June 30, 2004 of which \$849,283 were recorded in the general fund and \$229,316 recorded in the debt service fund. The CRIM applied \$25,275 on additional collections (included in the general fund) for the payment of principal of the line of credit agreement, which was issued to finance delinquent property tax accounts sold to private investors under the provision of Law No. 146 of October 11, 2001. The transaction falls under the definition of special item set forth by GASB 34, as it is a transaction of unusual or infrequent nature within the control of Municipality's management.

2. *Legal settlement with Puerto Rico Electric Power Authority (PREPA)*

On December 2000, the Municipality and other municipalities of Puerto Rico filed a complaint against the Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth of Puerto Rico, requesting the payment by PREPA of contributions in lieu of taxes and electric energy sales set aside on prior fiscal years. On March 18, 2003, the Board of Directors of PREPA approved a resolution by which PREPA agreed to settle the claims with all municipalities. Accordingly, the Municipality received \$900,966 in cash during fiscal year 2003-2004 and will receive \$754,802 in construction projects. The transaction falls under the definition of special item set forth by GASB 34, as it is a transaction of unusual or infrequent nature within the control of the Municipality's management.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE P - SUBSEQUENT EVENTS

1. On August 30, 2004 the Governmental Development Bank of Puerto Rico (GDB) approved the issuance of \$505,000 general obligation bonds to the Municipality to finance certain infrastructure projects. Bonds are due in annual installments ranging from \$40,000 to \$50,000 through July 1, 2009, bearing interest at a variable rate (LIBOR + 1.25%). Principal and interest payments will be financed through the Municipality's debt service fund.

2. Subsequent to June 30, 2004 the Municipality received from the Commonwealth's Legislature approximately \$10,316,917 on joint legislative resolutions. Most of these resolutions will finance capital improvement projects.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF CABO ROJO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note A)	Positive (Negative)
Revenues				
Property taxes	\$ 4,973,807	\$ 5,426,942	\$ 5,426,942	\$ -
Municipal license taxes	2,431,805	2,431,805	2,401,964	(29,841)
Intergovernmental	3,889,451	4,163,566	3,920,682	(242,884)
Fees, fines and charges for services	1,655,416	2,780,163	3,020,300	240,137
Interest	375,000	219,947	239,156	19,209
Other	16,000	845,124	831,041	(14,083)
Total revenues	<u>13,341,479</u>	<u>15,867,547</u>	<u>15,840,085</u>	<u>(27,462)</u>
Expenditures				
General government	3,945,687	4,893,329	4,702,252	191,077
Public works and sanitation	4,968,208	5,850,284	5,665,267	185,017
Public safety	1,486,793	1,398,838	1,393,348	5,490
Culture and recreation	698,296	890,070	888,513	1,557
Health	775,888	785,888	783,127	2,761
Welfare and community development	1,399,082	1,493,815	1,489,843	3,972
Education	28,200	12,000	12,000	-
Total expenditures	<u>13,302,154</u>	<u>15,324,224</u>	<u>14,934,350</u>	<u>389,874</u>
Excess (deficiency) of revenues over expenditures	<u>39,325</u>	<u>543,323</u>	<u>905,735</u>	<u>362,412</u>
Other financing sources (uses)				
Transfers in	-	85,000	85,000	-
Transfers out	(39,325)	(745,051)	(738,551)	6,500
Total other financing sources (uses)	<u>(39,325)</u>	<u>(660,051)</u>	<u>(653,551)</u>	<u>6,500</u>
Readjustment from prior year fund balance	<u>-</u>	<u>890,520</u>	<u>-</u>	<u>(890,520)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (note C)	<u>\$ -</u>	<u>\$ 773,792</u>	<u>\$ 252,184</u>	<u>\$ (521,608)</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, 2004

NOTE A - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTE B - BUDGET TO GAAP RECONCILIATION

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

MUNICIPALITY OF CABO ROJO

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

June 30, 2004

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 252,184
Budget to GAAP differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	1,603,614
Non budgeted funds recorded as expenditures for financial reporting:	(1,310,099)
Non budgeted transfers in:	2,642,875
Non budgeted transfers out:	(2,107,149)
Revenues recorded for financial reporting purposes but not in budgetary basis:	264,833
Revenues recorded in budgetary basis purposes but not in financial reporting:	(74,537)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	200,034
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(244,636)
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	200,267
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(174,589)
Net change in fund balance (GAAP basis):	<u>\$ 1,252,797</u>

NOTE C - BUDGET READJUSTMENTS

The budgetary comparison schedule present a readjustment from prior year fund balance of \$890,520. This amendment was approved by the Municipal Legislature with Ordinance Number 21, 2003-2004 Series.

During the fiscal year the Municipal Legislature approved two budget amendments through Ordinances Number 38 and 40, 2003-2004 Series, which produced a net difference of \$773, 792. A detail of this difference follows:

	Ordinance No. 38	Ordinance No. 40	Difference
Readjustment to revenues:	\$ 1,422,733	\$ 733,368	\$ 2,156,101
Readjustment to expenditures:	(661,583)	(720,726)	(1,382,309)
Net difference:	<u>\$ 761,150</u>	<u>\$ 12,642</u>	<u>\$ 773,792</u>

REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133

1. Title of the report
2. Date of the report
3. Name of the reporting agency
4. Name of the reporting officer
5. Name of the reporting officer's title
6. Name of the reporting officer's organization
7. Name of the reporting officer's address
8. Name of the reporting officer's telephone number
9. Name of the reporting officer's fax number
10. Name of the reporting officer's e-mail address
11. Name of the reporting officer's website address
12. Name of the reporting officer's social media address
13. Name of the reporting officer's other contact information

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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

To the Mayor and Municipal Assembly
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying financial statements of governmental activities, each major fund and aggregated fund information of **Municipality of Cabo Rojo**, as for the year ended June 30, 2004, and have issued our report thereon dated November 23 2004, which was qualified because we were unable to obtain an estimate of the landfill's closure and post closure care costs at June 30, 2004. 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 "G" of the financial statements describes more details regarding the landfills costs. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether **Municipality of Cabo Rojo's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 result 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 Cost, identified as items 2004-III-1 and 2. We also noted certain immaterial instances of noncompliance, which were reported to the Management of the **Municipality of Cabo Rojo** in a separate letter dated November 23 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Cabo Rojo's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality of Cabo Rojo's** ability to record, process, summarize, and report financial data consistent with the assertions of Management in the statement of the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs Section II as items 2004-II-1.

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

(Continued)

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 misstatements in amounts that would be material in relation to the statement of the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of reportable condition is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management the Municipality of Cabo Rojo in a separate letter dated November 23 2004.

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

San Juan, Puerto Rico
November 23 2004

The stamp number 2017680
was affixed to original of this report.



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LIC. 96
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133

To the Mayor and Municipal Assembly
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Compliance

We have audited the compliance of the **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, 2004. The **Municipality of Cabo Rojo's** major federal programs are identified in the summary of auditor's results 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 auditing standards generally accepted in the United States of America; 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's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Municipality of Cabo Rojo's** compliance with those requirements.

In our opinion, **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, 2004. However, the results of our auditing procedures disclosed two instance of non compliance 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 -Section III as items 2004-III-1 and 2004-III-2.

Internal Control Over Compliance

Management of **Municipality of Cabo Rojo** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered **Municipality of 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 the internal control over compliance in accordance with OMB Circular A-133.

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

(Continued)

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 material weakness.

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of governmental activities, each major fund and aggregated fund information of **Municipality of Cabo Rojo**, as for the year ended June 30, 2004, and have issued our report thereon dated November 23, 2004, which was qualified because we were unable to obtain an estimate of the landfill's closure and post closure care costs at June 30, 2004. 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 "G" of the financial statements describes more details regarding the landfills costs.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Cabo Rojo's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of **Municipality of Cabo Rojo**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

San Juan, Puerto Rico
November 23, 2004

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MUNICIPALITY OF CABO ROJO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
U.S. Department of Housing and Urban Development			
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	\$ 909,215
Program:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A	454,159
			<u>1,363,374</u>
U.S. Department of Health and Human Services			
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	151,216
Program:			
Passed through the P.R. Governor Office (Office of Elderly Affairs):			
Special Programs for the Aging Title III Part B Grants for Supportive Services and Senior Centers	93.044	N/AV	76,103
			<u>227,319</u>
U.S. Department of Agriculture			
program:			
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	7,996
U.S. Department of Justice			
Programs:			
Passed through the P.R. Department of Justice:			
Public Safety Partnership and Community Policy Grants-COPS	16.710	2001SHWX0095	256,236
Local Law Enforcement Block Grant	16.592	2000-LB-VX-1085	430
Total federal awards expenditures:			<u>\$ 1,855,355</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, 2004

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 subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

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

Description	Community Development Block Grant	Other Governmental Funds
14.228	\$ 909,215	\$ -
14.871	-	454,159
10.558	-	7,996
93.575	-	151,216
93.044	-	76,103
16.710	-	256,236
16.592	-	430
Total federal awards expenditures	909,215	946,140
Total nonfederal awards expenditures	-	2,203,680
Total expenditures, fund statements	\$ 909,215	\$ 3,149,820

MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended JUNE 30, 2004
(Continued)

SECTION I-SUMMARY OF AUDITOR'S RESULTS (Continued)

Part II Federal Awards (Continuation):

Material noncompliance disclosed:

Yes No

Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

Major Programs:

<u>CFDA Number (s)</u>	<u>Federal Program Grantor and Program Name</u>
14.228	<i>US Department of Housing and Urban Development.</i>
14.871	Community Development Block Grants Section 8 (Housing Vouchers)

Dollar threshold used to distinguish Type A and Type B programs:

\$300,000 or 3% of total federal awards expended

Low-risk auditee

Yes No

Waive risk criteria under 520 (i) of Circular A-133

Yes No

MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended JUNE 30, 2004

SECTION II- FINANCIAL STATEMENTS FINDINGS

Program: CDBG

Finding Number
2004-II-1

Accounting Records

Criteria and Condition

Section 20 of OMB Circular A-102 of the Common Rule, requires adequate accounting records should be maintained for each federal program. We noted that there are not general ledgers for CDBG and a trial balance was not provided by program personnel.

Cause

Program personnel have not keeping an adequate accounting cycle to be able to produce a CDBG's financial statement.

Effect

We did not get a trial balance from the program department and they are not in compliance with C-102.

Recommendation

We recommend starting a general ledger in order to produce a trial balance.

Management Response

The Federal Program will perform an immediate and complete review of internal controls over financial reporting. Instruction will be given to the accountant of the Federal Program Office in order to perform a complete accounting cycle and produce require records and reports for the regulatory agencies.

MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended JUNE 30, 2004

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program: CDBG

Finding Number
2004-III-1

Period of Availability of Federal Funds

Criteria and Condition

The OMBC-133, Period of Availability of Federal Funds (compliance I), states that when funding period are specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after expenditures has being incurred.

The Municipality did not liquidate all payables over a period of 90 days after the receipt of invoices on the following payments:

Betterroads	4410, 4447, 4471 and 4477
Treasury Department	4469

Cause

The Municipality has not been paying payables from suppliers in a period within 90 days after the receipt of invoices.

Effect

The Municipality has not been complying with program regulations.

Questioned Costs

None.

Recommendation

We recommend keeping control over suppliers invoicing in order to comply with program regulations.

Management Response

The Federal Program Office made some adjustment in the process of disbursements to avoid the payment over a period of 90 days after the receipt of invoices. We expected to correct this situation immediately with the complete review of the accounting process and the adjustment made by the office.

MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended JUNE 30, 2004
(Continued)

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program: Section 8

Finding Number

2004-III-2

Cash Management

Criteria and Condition

The OMBC-133, Cash Management (compliance C), states when funds are in advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

During the audit we noted that monthly housing assistant payments were made late after a period of five working days from the beginning of the month.

Cause

The Municipality has not been following an adequate control over cash receipts.

Effect

Housing assistants payments were made after five working days from date were cash deposits were received.

Questioned Costs

None.

Recommendation

To do housing assistant payments checks within the time period allow in order to comply with cash management time requirements.

Management Response

This situation is not the norm of the Section 8 Program's Office, we have taken correctives actions and this will not occur again.

MUNICIPALITY OF CABO ROJO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
For the year ended JUNE 30, 2004

Program: CDBG

Finding Number
2003-III-1

Cash Management

Criteria and Condition

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.

Status

Finding has not been cleared by Federal Agency.

Program: CDBG

Finding Number
2002-III-1

Cash Management

Criteria and Condition

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.

Status

Finding has not been cleared by Federal Agency.

MUNICIPALITY OF CABO ROJO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
For the year ended JUNE 30, 2004
(Continued)

Program: CDBG, SECTION 8

Finding Number
2002-III-2

Level of Effort or Earmarking

Criteria and Condition

In our examination, we found, in both programs, that general ledgers maintained are not balanced out. Program bank reconciliations, revenues and expenditures records did not match with their respective centralized accounting system records.

Status

Finding has not been cleared by Federal Agency.

Program: CDBG

Finding Number
2002-III-3

Reporting

Criteria and Condition

The Municipality is required to submit quarterly reports to the State Pass-through Agency. In our test of eight reports, six reports were submitted after the required date and in two cases amounts included did not match with their respective general ledgers.

Status

Finding has not been cleared by Federal Agency.

CORRECTIVE ACTION PLAN OF PRIOR AUDIT FINDINGS

Audit Report Title	Audit Period	Finding Description	Corrective Action	Responsible Party	Due Date	Status
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]
[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]	[Faint text]

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

CORRECTIVE ACTION PLAN OF PRIOR AUDIT FINDINGS

Audit Report S/A 2003-04 Date: December 23, 2004

Period Audited: July 1, 2003 to June 30, 2004

Certify Correct: Hon. Santos E. Padilla Ferrer - Mayor

Date: *[Signature]* 12/23/04

Employee Designated: *[Signature]*

Name: Nereida Seda Vargas

Position: Internal Auditor

Telephone: 787-851-1025 Exts. 337-344

23/December 2004

FINDING	CORRECTIVE ACTION	RESULTS
Program: CDBG Cash Management 2003-III-1 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.	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.	In Progress
Program: CDBG Cash Management 2002-III-1 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.	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.	In Progress
Program: CDBG Level of Effort or Earmarking 2002-III-2 In our examination, we found, in both programs, that general ledgers maintained are not balanced out. Program bank reconciliations, revenues and expenditures records did not match with their respective centralized accounting system records.	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: 1) Review of all the financial records and reports. 2) Reconciliations procedures between accounting records and external data.	In Progress

**Program: CDBG
Reporting**

COMMONWEALTH OF PUERTO RICO

2002-III-3

The Municipality is required to submit quarterly reports to the State Pass-through Agency. In our test of eight reports, six reports were submitted after the required date and in two cases amounts included did not match with their respective general ledgers.

The Municipality will establish procedures to ensure the compliance with the regulations and requirements of the Federal Agencies.

In Progress

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

CORRECTIVE ACTION PLAN

Audit Report S/A 2002-03 Date: December 23, 2004
 Period Audited: July 1, 2003 to June 30, 2004
 Certify Correct: Hon. Santos E. Padilla Ferrer- Mayor
 Date: *Santos E. Padilla Ferrer 12/23/2004*

Employee Designated: *[Signature]*
 Name: Nerelda Seda Vargas
 Position: Internal Auditor
 Telephone: 787-851-1025 Exts. 337-344

23 Diciembre 2004

FINDING	CORRECTIVE ACTION	RESULTS
<p>Program: CDBG Accounting Records</p>		
<p>2004-II-1 Section 20 of OMB Circular A-102 of the Common Rule, requires adequate accounting records should be maintained for each federal program. We noted that there are not general ledgers for CDBG and a trial balance was not provided by program personnel.</p>	<p>The Federal Program Office will perform an immediate and complete review of internal 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. Actually they keep all the accounting records and reports in computer (Excel), including the general ledger. Instruction will be given to the accountant of Federal Program Office in order to perform a complete accounting cycle and produce require records and reports for the regulatory agencies.</p>	<p>In progress</p>
<p>Program CDBG Period of Availability of federal Funds</p>		
<p>2004-III-1 The OMBC-133, Period Availability Of Federal Funds (compliance I), states that when funding period are specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by Federal awarding agency. Non Federal entities subject to the A 102 Common Rule shall liquidate all obligations under the award not later than 90 days after the end of the funding period. The Municipality did not liquidate all payables over a period of 90 days after the receipt of invoices on the following payments: Betterroads 4410,4447,4471 and 4477; Treasury Department 4469.</p>	<p>The Federal Program Office made some adjustment in the process of disbursement to avoid the payment over a period of 90 days after the receipt of invoices. We expected to correct this situation immediately with the complete review of the accounting process and the adjustments made by the office.</p>	<p>In progress</p>

Program: Section 8 Cash Management		
2004-III-2 The OMBC-133, Cash Management (compliance C), stays when funds are in advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. During the audit we noted that monthly housing assistant payments were made late after a period of five working days from the beginning of the month.	This situation isn't the norm of the Section 8 Program's Office, we have taken correctives actions and this will not occur again.	Complete