

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE COMERIO

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

04-0057

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF COMERIO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2003

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2003**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And the Municipal Assembly
Municipality of Comerío
Comerío, Puerto Rico

I have audited the accompanying general-purpose financial statements of the Municipality of Comerío, as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Comerío management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

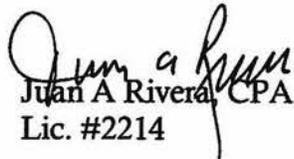
I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable assurance for my opinion.

As describe in note 1, the Municipality of Comerío has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, I was unable to satisfy myself as to the fixed asset balance or such all groups amounting to \$11,016,789.

In my opinion, except for the effect on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Comerío as of June 30, 2003, and the result of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated December 17, 2003 on my consideration of the Municipality of Comerío internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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 Organization, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in my opinion, is fairly stated, in all material respect, in relation to the general purpose financial statements taken as a whole.


Juan A Rivera, CPA
Lic. #2214

December 17, 2003
Toa Baja, Puerto Rico



NOTE: Stamp No. 1931640 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COMERIO
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES
AND ACCOUNT GROUP
As of June 30, 2003

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	ACCOUNT GROUPS		Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debts	
<u>ASSETS AND OTHER DEBITS</u>								
Cash	\$1,520,337	\$489,075		\$1,191,830	\$38,200			\$3,239,442
Cash with fiscal agent			\$232,012	505,000				737,012
Investments	3,925,000			1,350,000				5,275,000
Receivable:								
Accounts Receivable					17,266			17,266
Due from general fund		923,855		1,349,911				2,273,766
Due from capital project	36,055							36,055
Due from governmental agencies	522,410							522,410
Tenant deposits held in trust					14,086			14,086
Deposits					816,610			816,610
General Fixed Assets					1,585,528	\$11,016,789		12,602,317
Amount in debt service fund							\$232,012	232,012
Property tax advances							767,801	767,801
Amounts to be provided to:								
Compensate employees benefits							1,098,340	1,098,340
Repay general obligations							895,988	895,988
TOTAL ASSETS	6,003,802	1,412,930	232,012	4,396,741	2,471,690	11,016,789	2,994,141	28,528,105
<u>LIABILITIES AND FUND EQUITY</u>								
LIABILITIES								
Accounts payable & accrued expenses	711,078	262,024			75,094			1,048,196
Mortgage payable					1,424,995			1,424,995
Due to state government agencies	772,814							772,814
Due to special fund	923,855	36,055						959,910
Due to capital project	1,349,911							1,349,911
Deferred revenues	182,739	466,909						649,648
Tenant deposits held in trust					14,086			14,086
Property tax advances							767,801	767,801
Accrued employees benefits							1,098,340	1,098,340
General obligations:								
Bonds							813,000	813,000
Notes							315,000	315,000
TOTAL LIABILITIES	3,940,397	764,988			1,514,175		2,994,141	9,213,701
FUND EQUITY								
FUND BALANCE								
Investment in general fixed assets						11,016,789		11,016,789
Reserve for encumbrances	1,048,020							1,048,020
Reserve for debt service			232,012					232,012
Designated for future year expenditures	1,015,385	647,942		4,396,741	957,515			7,017,583
TOTAL FUND EQUITY	2,063,405	647,942	232,012	4,396,741	957,515	11,016,789		19,314,404
TOTAL LIABILITIES & FUND EQUITY	\$6,003,802	\$1,412,930	\$232,012	\$4,396,741	\$2,471,690	\$11,016,789	\$2,994,141	\$28,528,105

See accompanying notes to General Purpose Financial Statements

**MUNICIPALITY OF COMERIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Proprietary Fund Type	Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	Enterprise	
REVENUES:						
Property taxes	\$590,065		\$82,772			\$672,837
Intergovernmental Grants:	5,303,693					5,303,693
Federal grant contribution		\$1,391,966		\$1,649,363	\$457,214	3,498,543
State grant contribution		1,239,651		615,044		1,854,695
Volume of business tax	510,743					510,743
Interest	134,051		2,476		13,062	149,589
Rent	212,259				55,501	267,760
Construction - Excise taxes	1,500,125					1,500,125
Miscellaneous	217,265				2,752	220,017
TOTAL REVENUES:	8,468,201	2,631,617	85,248	2,264,407	528,529	13,978,002
EXPENDITURES:						
General Administration	4,161,229	524,503			421,554	5,107,286
Public Works	2,316,908	598,836				2,915,744
Sports and recreation	349,878					349,878
Civil Defense	153,435					153,435
Public Relationship	281,399	32,728				314,127
Municipal Police	346,668					346,668
Citizen Business	675,126	466,140				1,141,266
General Services	236,479					236,479
Housing		489,413				489,413
					139,246	139,246
Debt service:						
Principal and Interest			117,750			117,750
Capital outlays				3,127,018		3,127,018
TOTAL EXPENDITURES:	8,521,122	2,111,620	117,750	3,127,018	560,800	14,438,310
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	(52,921)	519,997	(32,502)	(862,611)	(32,271)	(460,308)
OTHER FINANCING SOURCES (USES):						
Proceeds from the issuance of loans				670,000		670,000
Transferred from in (out)	(624,712)	(2,690,875)	(2,502)	3,318,089		
TOTAL	(624,712)	(2,690,875)	(2,502)	3,988,089		670,000
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(677,633)	(2,170,878)	(35,004)	3,125,478	(32,271)	209,692
Fund balance (Deficit), beginning of year	2,741,038	2,818,820	306,022	1,271,263	971,912	8,109,055
Adjustment to beginning balance			(39,006)		17,874	(21,132)
Fund balance (Deficit), beginning (adjusted)	2,741,038	2,818,820	267,016	1,271,263	989,786	8,087,923
Fund balance (Deficit), ending	\$2,063,405	\$647,942	\$232,012	\$4,396,741	\$957,515	\$8,297,615

See accompanying notes to General Purpose Financial Statements

MUNICIPALITY OF COMERIO
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL & DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2003

	GENERAL FUND			DEBT SERVICE FUND			TOTAL (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	TOTAL BUDGET	TOTAL ACTUAL	TOTAL VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE:									
PROPERTY TAX	\$590,064	\$590,065	\$1				\$590,064	\$590,065	\$1
INTERGOVERNMENTAL	5,441,850	5,303,693	(138,157)				5,441,850	5,303,693	(138,157)
VOLUME OF BUSINESS TAX	366,750	510,743	144,993				366,750	510,743	144,993
EXCISE TAX	813,984	1,500,125	686,141				813,984	1,500,125	686,141
INTEREST	135,000	134,051	(949)	5,000	\$2,476	2,476	135,000	134,051	(949)
RENT	225,240	212,259	(12,981)				225,240	212,259	(12,981)
MISCELLANEOUS	147,601	217,265	69,664				147,601	217,265	69,664
DEBT SERVICE				\$117,805	82,772	\$82,772	117,805	82,772	(35,033)
TOTAL REVENUE	7,719,489	8,468,201	748,712	122,805	86,248	85,248	7,837,294	8,550,973	713,679
EXPENDITURE:									
MUNICIPAL COUNCIL	136,167	120,122	16,045				\$136,167	\$120,122	16,045
MAYOR OFFICE	671,234	721,662	(50,428)				671,234	721,662	(50,428)
FINANCE	1,918,628	2,232,455	(313,827)				1,918,628	2,232,455	(313,827)
PUBLIC WORK	1,927,664	2,249,561	(321,897)				1,927,664	2,249,561	(321,897)
CIVIL DEFENSE	263,396	153,437	109,959				263,396	153,437	109,959
MUNICIPAL POLICE	475,697	349,614	126,083				475,697	349,614	126,083
PERSONNEL	598,925	973,458	(374,533)				598,925	973,458	(374,533)
SPORT & RECREATIONS	333,610	346,669	(13,059)				333,610	346,669	(13,059)
PUBLIC RELATIONSHIP	194,892	281,400	(86,508)				194,892	281,400	(86,508)
CITIZENS BUSINESS	528,944	477,206	51,738				528,944	477,206	51,738
SECRETARY	217,831	195,877	22,154				217,831	195,877	22,154
INTERNAL AUDIT	74,045	74,045	0				74,045	74,045	0
PLANNING OFFICE	82,865	82,862	13				82,865	82,862	13
GENERAL SERVICES	295,591	236,479	59,112				295,591	236,479	59,112
DEBT SERVICE				117,805	117,750	55	117,805	117,750	55
TOTAL EXPENDITURE	7,719,489	8,484,637	(775,148)	117,805	117,750	55	7,837,294	8,612,387	(775,093)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	\$0	(\$28,436)	(\$28,436)	\$5,000	(\$32,502)	\$85,193	\$0	(\$61,414)	(\$61,414)

See Note to General Purpose Financial Statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Comerío (the Municipality) was established in 1826. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a twelve (12) members municipal Assembly who are elected every four years through the Puerto Rico general elections .

The Municipality provides the following services: general and administrative service, public safety, human services, education, public works, culture and recreation, sanitation, health, housing and urban development and welfare.

The Municipality's general purpose financial statements are presented in accordance with generally accepted accounting principles, as applicable to governmental entities. A summary of the Municipality significant accounting policies follows:

A. REPORTING ENTITY

The Statement 14 of the Governmental Accounting Standards Board, defining the Governmental Financial Reporting Entity, specifies the criteria to be used in defining the reporting entity for financial reporting purposes. The basic, but not the only, criteria for including a potential component unit in the reporting entity are the following:

- a. Legally separate organization
- b. Financial accountability
- c. Financial accountability, as a result of fiscal dependence
- d. Specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- ❖ Selection of Governing Authority
- ❖ Designation of Management
- ❖ Ability to influence Operations Significantly

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accountability for Fiscal Matters

- ❖ Budgetary Authority
- ❖ Surplus/Deficit
- ❖ Responsibility for debt
- ❖ Fiscal Management
- ❖ Revenue Characteristics

Factors other than oversight, which may significantly influence the entity relationship, are:

- ❖ **Scope of Public Service**
- ❖ **Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component unit are to be included as part of the reporting entity. My specific evaluations of the criteria applicable to the Municipality of Comerio indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

Based to the criteria established above, Rio Plata Development is non- profit organization duly organized existent under the regulation of section 515 of rural housing services, And the municipality financial statements included in the enterprise fund the operation of this organization.

Rio de Plata Development (Project) is a 90-unit dwelling units project located at comerio, PR. The project is operated under Section 515 of U.S. rural housing service (RHS)/ Department of Agriculture (DA) / Rural Development (RD) and regulated by the U.S. Department of housing and Urban Development (HUD) and RHS- DA-RD with respect to rental charge and operating methods. The Project is also subject to section 8 Housing Assistance Payments agreements with HUD, and significant portion of the project's rental income is received from HUD.

Municipality of Comerio, Puerto Rico (Owner) holds legal title of the Project. The administration of the Project is carried-out by a Management Agent that is unrelated to the Owner.

The project entered into a regulatory agreement with HUD providing that rent increases are subject to HUD's approval. The books of the project are kept in accordance with the requirements HUD. The accounting policies followed by the Project conforms to predominant industry practice and are based on generally accepted accounting principles of the United States of America.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The non-profit organization (Project) financial statements were audited by other certified public accounting firm and an unqualified report was issue on September 11, 2003. Copy of the said report can be obtained from CPA Diaz Martinez, PSC, Box 8369, Caguas, PR 00726 - 8369.

B. BASIC OF PRESENTATION

The general- purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Municipality. Additional data has been obtained from reports prepared by other municipal departments based on independent or subsidiary accounting records maintained by them. The Municipality records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Governmental funds are those through which most governmental functions are financed. The acquisition, use, and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

General Fund - The general fund is the operating fund of the Municipality. It is used to record all the financial resources and the majority of current operations except for those of specific nature that must be recorded in other funds.

Special Revenue - Is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Fund - In the debt service fund the accumulation of resources assigned for the payment of principal, interest and related cost of the general long-term debts.

Capital Projects - Is used to account for financial resources reserved for the acquisition or construction of major capital facilities.

Fiduciary Funds – Trust and Agency Funds – Are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of result of operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. BASIC OF PRESENTATION – CONTINUED

Accounts Groups

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long – term debt. The Municipality's account groups are:

Proprietary Fund Types

Proprietary Funds are used to account for ongoing organizations and activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Following is the Municipality's proprietary fund type.

Enterprise Funds

Is used to account for operations that are financed and operated in a manner similar to a private business enterprises where the intent is that costs (expenses, including amortization and depreciation) of providing goods or services to the general public on continuing basis be financed or recovered primarily through user charges.

General Long-Term Debt - is used to account for all long-term debt obligations of the Municipality.

General Fixed Assets - is used to account for all fixed assets of the Municipality other than those accounted for in the proprietary funds, and certain fiduciary funds.

C. BASIS OF ACCOUNTING

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. BASIS OF ACCOUNTING (CONT.)

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality's therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier, if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earning) are recorded as revenues when received because they are generally not measurable until actually received.

D. ENCUMBRANCES

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve that portion of the applicable appropriation for future obligations. Open encumbrances at year-end are reported as a reserve of fund balance since they do not constitute expenditures or liabilities.

E. BUDGETARY DATA

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law.

- 1) Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- 2) The budget document is available for public inspection prior to its approval by the Municipal Assembly. Also, a copy of the document is sent to the Municipal Affairs Commissioner for further evaluation and recommendation.
- 3) Prior to July 1, the annual budget is legally enacted through the approval of the annual appropriation ordinance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. BUDGETARY DATA – CONTINUE

- 4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for encumbrances and property tax advances as described below.

The actual result of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) Budget and Actual General and Debt Service Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The necessary adjustments to convert the result of operations of the General Fund from the accounting basis to the budgetary basis are as follows:

	Revenues	Expenditures
Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) General Fund	\$8,468,201	\$8,521,482
Adjustments:		
Add:		
Current year encumbrances recognized as expenditures in the budgetary basis	-0-	569,110
Deduct:		
Non budgetary transactions Payment of "Resultas"		(595,955)
	-----	-----
Budgetary Basis	\$8,468,201	\$8,494,637
	=====	=====

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. BUDGETARY DATA – CONTINUED

The budget prepared for each of the special revenues funds is based on a program period that is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenues Fund.

F. CASH

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Treasury Department of the Commonwealth of Puerto Rico. Cash balance from most funds are pooled and invested. All cash in banks at June 30, 2003, is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department in its name.

	<u>Insurance by FDIC</u>	<u>Insured by Collateral In Treasury Dept. of PR</u>	<u>Total</u>
Bank Trust	\$ 100,000	\$ 2,500,000	\$2,600,000
First Bank	<u>100,000</u>	<u>2,575,000</u>	2,675,000
	\$200,000	\$5,075,000	\$5,275,000

G. INTERFUND TRANSACTIONS

The general Fund provides services at cost to the special revenue fund. The amount charged to these funds for the services provided are treated as a reduction of expenditures in the General Fund.

H. RESERVATION OF FUND BALANCE

Reservation of fund balance is those portions of fund balances that are not appropriate for expenditure or that is legally segregated for a specific future use.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. RESERVATION OF FUND BALANCE - CONTINUE

The Municipality has the following reservations of fund balance:

- ❖ Encumbrances - represents future expenditures under purchase orders, contracts, and other commitments. Generally these committed amounts will become liabilities in future periods as goods or services are performed or received.
- ❖ Debt Service - represents net assets available to finance future debt service payments.

I. COMPENSATED ABSENCES

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days, with the excess paid annually. In the event of employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employee's entitled vacations and sick leave are accrued in the General Long—Term Debt Account Group.

J. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection form catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. TOTAL COLUMNS (MEMORANDUM ONLY)

The total columns are presented only to facilitate additional analysis. Consequently, amounts shown in Total Columns (Memorandum Only) do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfold elimination has not been made.

L. INVENTORIES

The general and special revenue fund purchase office and printing supplies, gasoline, oils, and other items. The cost of current purchases is recorded as expenditures

M. USED OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from the Electric Power Authority of Puerto Rico and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

NOTE 2 - PROPERTY TAXES

During August 1991, Law 80 was enacted to create an agency, named Municipal Revenues Collection Center (known by its Spanish acronym, CRIM), which assumed the functions of the assessment, levy and collection of all real and personal property taxes from the Office of Municipal Affairs of the Treasury Department effective July 1, 1993. The tax on real property is assessed by the CRIM. The assessment is made on January 1 of each year and is based on estimated current values of the property of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax return on real property is due on two equal installments in July 1 and January 1, following the assessment date.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 – PROPERTY TAXES (CONTINUED)

The annual tax rate for fiscal year 2003 is 8.08% for real property and 6.08% for personal property of which 1.03 of both belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the General Fund. Such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt services and accounted for in the Debt Service Fund. The Commonwealth also contributes an annual tax rate 0.2% of the property tax collected and such amount is accounted for similar of item (a) above.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality. Revenues related to the basic tax on exempt property are recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retail businesses with an annual volume of sales under \$150,000.

The CRIM advances to the Municipality an estimated amount of the basic property tax levied on non-exempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3 - VOLUME OF BUSINESS TAX - MUNICIPAL TAXES

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their declaration by April 15 of each year.

The tax rates are as follows:

- Savings and Loans Associations	1.00%
- Financial Institutions	1.50%
- Other Organizations	.50%

The tax is payable in two equal semi-annual installments on July 1 and January 1 following the levy date. A discount of 5% is allowed for the full payment on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

NOTE 4 - INTERGOVERNMENTAL REVENUE

Intergovernmental revenues consists mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi - public corporations, principally the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among other, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5 - GENERAL FIXED ASSETS

The Municipality has not maintained complete and adequate records of its general fixed assets. There are not control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets properly ledger. Also, the property records do not provide the necessary information to make the disclosures required by the 1980 GAAFR (Government Accounting and Financial Reporting). As a result, there is no adequate information available to property classify the Municipality's property and equipment between land, buildings, equipment and construction in progress.

The Municipality's management has estimated its general fixed assets as follows:

Land	\$ 596,110
Real Property	468,166
Vehicles, equipment, and furniture	<u>9,952,513</u>
Total fixed assets	<u>\$11,016,789</u>

NOTE 6 - GENERAL LONG - TERM DEBT

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality, nevertheless, the laws and regulations of the Commonwealth also provide that:

- ❖ Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- ❖ Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 - GENERAL LONG - TERM DEBT - CONTINUED

In addition, before any new bonds of notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2003, the Municipality is in compliance with the debt limitation requirements.

The general long-term debts activity for the year ended June 30, 2003 were as follows:

Balance at June 30, 2002	\$ 544,000
Additions during the year	670,000
	1,214,000
Amortization of principal during the year	(86,000)
	\$1,128,000

General long-term debts' transactions as of June 30, 2003 are as follows:

PUBLIC IMPROVEMENTS BONDS

1991 serial bond due, payable in annual installments of \$8,000 to \$26,000 until January 1, 2016, interest at 5.75%.	\$ 241,000
1992 serial bond due, payable in annual installments of \$1,000 to \$7,000 until January 1, 2016, interest at 5%.	67,000
2002 serial bond due in annual installments of \$10,000 to \$40,000 plus interest due in semi-annual installments at 5% through 6.5%; till July 2027.	505,000
	\$ 813,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 6 - GENERAL LONG - TERM DEBT - CONTINUED

NOTE PAYABLE - CONTINUED

\$350,000 serial of 1998, payable in annual installments of \$40,000 to \$60,000 until July 1, 2005; interest from 4.865% to 6.31%.	\$ 170,000
\$165,000 serial of 2001 due in annual installments of \$20,000 to \$28,000 till January 2009. Accrued interest payable in annual installments at 4.5%.	145,000
	<u>315,000</u>

Other Long - Term Debts

Over Property tax Advances of Prior Years	767,801
Provision for accrued compensated absences	1,098,340
	<u>\$2,994,141</u> =====

The annual requirements to amortize the general long-term debt outstanding at June 30, 2003 is as follows:

2004	\$ 152,548
2005	163,397
2006	163,671
2007	102,345
2008	102,518
Thereafter	1,111,711
	<u>1,796,190</u>
Amount Representing interest	668,190
	<u>\$1,128,000</u> =====

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7 - DEBT SERVICE FUND

Revenues for the Debt Service Fund mainly consist of the ad valorem property taxes (as described in note 2), which are recognized as revenues when collected and reported by the municipal revenue collection center (know by is spanish acronym, CRIM). These taxes are for the debt service requirements of the bonds and notes obligation issued by the Municipality. The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the ad valorem taxes and received from the CRIM.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Municipality is a grantee in various Federal Financial Assistance Programs. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resource for eligible purposes.

Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance cost as a result of these audits, becomes liability of the fund that receives the grant and must be reimbursed to the Federal Government from the Municipality's local funds. The "Schedule of Reportable Conditions and Recommendations" and the "Schedule of Findings and Questioned Costs" for the year ended June 30, 2003, disclosed some instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. No provision for any liability has been made in the general-purpose financial statements for possible federal claims for refunds of those grant funds. The amount, if any of expenditures, which may be disallowed, cannot be determined at this time.

The Municipality is a defendant and/or co defendant in various lawsuits, which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that potential liability that might exist in excess of the insurance will not affect the financial position of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM

The Municipality's employees participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. The System was created under Act. No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another System or used for any purpose other than to benefit each System's participants. The System issue publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities Retirement benefits depend upon are at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefits 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 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program Persons joining the government on or after January 31, 2000, are the only required to become members of System 2000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM - CONTINUED

System 2000 is a hybrid defined contributions plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth nor the Municipality will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the maximum (with minimum of 8.275 percent of the employee's salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employee's salary which is applicable to the Municipality) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

Funding Policy:

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before	
March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or before	
March 31, 1990	8.275% of gross salary

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM - CONTINUED

During the fiscal year ended June 30, 2003 the employer's contributions paid by the Municipality to both retirement systems amounted to \$115,507.67. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more year of service and 55, or 30 or more years or services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reaches the normal retirement age.

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, the Commonwealth will assume any actuarial deficiency that may exist or arise related of the Municipality's participating employees since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation or net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 – DUE FROM AND DUE TO GOVERNMENTAL AGENCIES

Represents grants and contributions due from local quasi-public agency (AEE) and other inter governmental agencies.

	<u>DUE FROM</u>	<u>DUE TO</u>
Electric Power Authority	\$ 522,410	\$ 593,339
ONDEO – P.R. Water Authority		123,663
P. R. Retirement Plan		45,473
P. R. Telephone Co.		8,533
General Services		1,806
	<u>\$ 522,410</u>	<u>\$ 772,814</u>

NOTE 11 – LEASES

Leasing arrangements with the Municipality as lessor are as follows:

1. The Municipality leases spaces under operating lease agreements with terms ranging from one to five years.
2. Total income from leases during the year ended June 30, 2003 was approximately \$212,259.
3. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance cost of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods no longer than one year.

[REDACTED]

**JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT**

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

To the Honorable Mayor and
The Municipal Assembly
Municipality of Comerío
Comerío, Puerto Rico

Compliance

I have audited the compliance of Municipality of Comerío with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Municipality of Comerío major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Comerío management. My responsibility is to express an opinion on the Municipality of Comerío compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those Standards and OMB Circular A-133 require that I 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 the Municipality of Comerío compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not include a legal determination of the Municipality of Comerío compliance with those requirements.

In my opinion the Municipality of Comerío complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

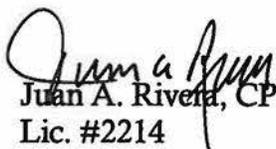
Internal Control Over Compliance

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

There are no matters coming to my attention involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Municipality of Comerío ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants 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. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities.


Juan A. Rivera, CPA
Lic. #2214

December 17, 2003
Toa Baja, Puerto Rico



NOTE: Stamp No. 1931641 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

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

To the Honorable Mayor and
The Municipal Assembly
Municipality of Comerío
Comerío, Puerto Rico

I have audited the financial statements of the Municipality of Comerío as of and for the year ended June 30, 2003, and have issued my report thereon dated December 17, 2003. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

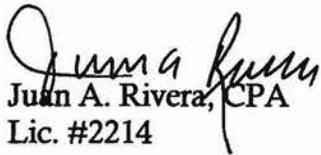
As part of obtaining reasonable assurance about whether the Municipality of Comerío financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing and opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Comerío's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a 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 general purpose financial statements being audited may occur and not be detected within a period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities.


Juan A. Rivera, CPA
Lic. #2214



December 17, 2003
Toa Baja, Puerto Rico

NOTE: Stamp No. 1931642 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the general-purpose financial statements of the Municipality of Comerío.
2. Four reportable conditions disclosed during the audit of the financial statements are reported in the Schedule of Finding and Questioned Cost. None of the conditions is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Municipality of Comerío were disclosed during the audit.
4. Four reportable conditions disclosed during the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for the municipality of Comerío expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Municipality of Comerío are reported in Part C. of this Schedule.
7. The programs tested as major programs included: SBGP.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Municipality of Comerío was determined to be a low risk audited.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

B. REPORTABLE CONDITIONS

1 - FIXED ASSETS -2003-1

During my examination of the fixed assets, the following deficiencies were noted:

- a) The property records do not provide the necessary information to make the disclosures required by the 1980 GAAFR (Governmental Accounting, Auditing, and Financial Reporting).

As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between land, buildings, equipment, and construction in progress and record the accumulated depreciation.

Recommendation:

We recommend that the Municipality should:

- a) Establish adequate control procedures to assure that all applicable expenditures are properly recorded in the Municipality's accounting records on a timely basis.
- b) Perform a physical inventory of all property and equipment and compare it with the items recorded in the property ledger. All differences noted should be immediately investigated and resolved; and calculated depreciation as required by GASB 34 that is obligatory for next fiscal year to the Municipality.

Auditee Response:

The municipality entered in contract with an outside consultant firm to help in the compliance and implementation of the GASB 34; with this work the above condition will be corrected for next fiscal year.

2 - PERSONNEL RECORD - 2003-2

During my examination of twenty-five (25) files of personnel record, the following deficiencies were noted:

Tasks not performed or missing documents:

- a. No immigration form I-9 2 or 8%
- b. No evaluation in file 11 or 45%
- c. Municipalities policies in relations to drug abuse 1 or 4%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

B. REPORTABLE CONDITIONS (CONTINUED)

2 - PERSONNEL RECORD – 2003-2 (CONTINUED)

During my examination of twenty-five (25) the personnel record, the following deficiencies were note:

Tasks not performed or missing documents

d. Certification of good behavior	5 or 20%
e. Job certification center	6 or 25%
f. No evidence of discussion government ethic law	11 or 45%
g. No evidence of sexual harassment law	18 or 75%

Recommendation:

I recommended that the forms mentioned above be included in each personnel record.

Auditee Response:

Personnel administrator is in the process of updating all employees' records. This task will be finished by the end of second quarter of 2004.

3. DISBURSEMENT TEST – GENERAL FUND 2003-3

Condition:

My review of thirty-seven (37) disbursements vouchers of the Municipality general funds revealed noncompliance with applicable internal control requirements. The following documents were missing or incomplete.

- a. One payment without invoice \$375.00.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

B – REPORTABLE CONDITIONS (CONTINUED)

4. REVENUES ACCOUNTS RECEIVABLE 2003-4

Conditions:

The following deficiencies were found in the revenues and accounts receivable area:

(Volume of Business Activities)

- | | |
|---|---------|
| a. Tax return without stamp from Treasury Department | 3 or 9% |
| b. Submitted late (July) and not penalty were charged | 2 or 6% |
| c. Income tax return with rent income and not included
in volume of business tax | 1 or 3% |
| d. Tax return total figures did not match with schedules
submitted | 1 or 3% |

Criteria:

The Municipality must maintain adequate controls over volume of business taxes receivable and of tax return submitted.

Cause of condition:

This situation cause that the data could be obtained from the system be unreliable and that the Municipality does not have a good control over the levy and/or collection taxes

Effect of condition:

The amount of volume of business tax receivable were not properly documented or calculated.

Recommendation:

The Municipality must establish the necessary procedures to have a computerized system to levy the volume of business tax and improve the documents verification process.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

B- REPORTABLE CONDITIONS (CONTINUED)

5 - REVENUES ACCOUNTS RECEIVABLE 2003-4 (CONTINUED)

Auditee Response:

The auditee agreed with the finding and give instruction to the collectors to correct this situation immediately.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003**

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASSED THROUGH GRANTOR NUMBER	FEDERAL DISBURSEMENT EXPENDITURES
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**U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

Housing Choice Voucher	14.855	N/A	515,966
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**PASSED THROUGH P.R. MUNICIPAL SERVICES
ADMINISTRATION BLOCK GRANT - NON ENTITLEMENT**

SBGP (Consolidation)	14.228	→ 92-FD-20	1,266,979
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U.S. DEPARTMENT OF JUSTICE

Crime Victims Assistance Grant	16.575		162,185
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			\$ 1,945,130
→ Mayor Program			

See accompanying notes to schedule of federal financial assistance

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1 - GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activities of all federal financial assistance programs of the Municipality of Comerío, Puerto Rico. The Municipality reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. All federal financial assistance passed through other governmental agencies, are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting, which is described in Note 1 of the Municipality's general purpose financial statements.

NOTE 3 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Revenues and expenditures of the Federal Financial Assistance Programs are included in the Municipality's general-purpose financial statements within the Special Revenues. The reconciliation between the expenditures in the general purpose financial statements and expenditures in the Schedule of Federal Financial Assistance is as follows:

Expenditures in the general-purpose financial statements:

Special Revenues Fund	\$2,631,617
Capital Project Fund	<u>2,264,407</u>
	4,896,024
Less non-federal expenditures	<u>(2,950,894)</u>
Expenditures in the Schedule of Federal Financial Assistance	1,945,130

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2003**

The Municipality of Comerío has been the subject of various audits and program monitoring compliance over the past years. Following is a summary of audit findings for which final determination and/or corrective action are in process. Most of these findings still prevail for the year ended June 30, 2003.

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June 30, 2002, dated December 17, 2003	FIXED ASSETS During our examination of the fixed assets, the following deficiencies were noted:		partially corrected
	a) There are no control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets properly ledger.		municipality under the process of actualize property inventory and record to comply with GASB 34.
	b) The subsidiary ledger is not reconciled with the Municipality's accounting records.		
	c) The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary.		
	d) The property records do not provide the necessary information to make the disclosures required by the 1980 GAAFR (Governmental Accounting, Auditing, and Financial Reporting).		
	e) The acquisition of fixed assets is not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis.		
	As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between land, buildings, equipment, and construction in progress.		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2003**

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June, 30, 2002, dated December 17, 2003	<p>PERSONNEL RECORD</p> <p>During my examination of the personnel record, the following deficiencies were note:</p> <p>A. The form number I-9 (Immigration form) required by law was missing in eighteen of the thirty five personnel files examined</p> <p>B. The employees record did not show that the governmental ethic law were discussed with the employees.</p> <p>C. The employees record did not show Academic Degree in seventeen files.</p> <p>DISBURSEMENT TEST – GENERAL FUND</p> <p>My review of twenty three (23) disbursements vouchers of the Municipality general funds revealed noncompliance with applicable internal control requirements. The following documents were missing or incomplete.</p> <p>a. Support for Quotation - Advertising</p> <p>1. Supporting document from the different new paper did not included in the quotation procedure (not evidenced).</p> <p>2. The invoice did not include the percentage that the advertising agency will received and transferred to the municipality.</p>		<p>still prevail</p> <p>still prevail</p> <p>corrected</p> <p>corrected</p> <p>corrected</p> <p>corrected</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2003**

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June, 30, 2002, dated December 17, 2003 BID	As part of my examination of the bid procedures of the Municipality, I requested the file and documents for eleven (11) bids granted during the year. The following summarizes the deficiencies funds: 1 of 11 the contract did not provide the budget account clause from where the service will be paid.		not exception were encountered
<u>REVENUES ACCOUNT RECEIVABLE</u>			
The following deficiencies were found in the revenues and accounts receivable area:			
a. During my examination of the volume of Business Tax (Patente) I noted the following:			
not exception were encountered			
1. Abdalla, Bassam			
The Income Tax return did not have the received stamp from the Treasury Department			
2. Island Finance Corp.			
Audit financial statement not included			
3. Marcuno Rodriguez, José			
Did not have the copy of income tax return and the declaration is not signed.			
4. First medical center three differences business was included in the same volume of business return.			

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2003**

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June, 30, 2002, dated December 17, 2003	REPORTABLE CONDITTON FEDERAL PROGRAMS – EXISTING COST/COMMENTS		
	The Municipality has not established effective cash Management procedures.		corrected
	<u>PARTICIPANT FILE INFORMATION</u>		
	My review of (24) file of participant of the program, receivable noncompliance with applicable requirement. The following documents were missing or incomplete.		corrected
	<ul style="list-style-type: none"> a. 38 % the application was not signed. b. 21 % the participant file did not have form 50058. c. 88% the municipality did not inspect the unit d. 4 % the file did not have the tenant certification. e. 8 % the file did not have the copy of social security and birth certificate 		
	<u>SECTION 8 / EXISTING</u>		
	Incompatible functions of Section 8 coordinator.		corrected
	<u>SECTION 8 / EXISTING</u>		
	The waiting list maintained by the municipality did not meet the requirement of Federal Grant.		corrected

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2003**

The Municipality of Comerio has been the subject of various audits and program monitoring compliance over the past years. Following is a summary of audit findings for which final determination and/or corrective action are in process. Most of these findings still prevail for the year ended June 30, 2003.

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June, 30, 2002, dated December 17, 2003	1 - <u>FIXED ASSETS</u>		Partially corrected

During our examination of the fixed assets, the following deficiencies were noted:

- a) There are no control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets properly ledger.
- b) The subsidiary ledger is not reconciled with the Municipality's accounting records.
- c) The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary.
- d) The property records do not provide the necessary information to make the disclosures required by the 1980 GAFF (Governmental Accounting, Auditing, and Financial Reporting).
- e) The acquisition of fixed assets is not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis.

As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between land, buildings, equipment, and construction in progress.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2003**

Audit report	Findings	Questioned costs	Actual status																		
Single audit for the year ended June, 30, 2002, dated December 17, 2003	2 - PERSONNEL RECORD		Condition Still prevail																		
	During our examination of the personnel record, the following deficiencies were note:																				
	A. The form number I-9 (Immigration form) required by law were missing in all personnel file examined (30).																				
	B. The employees record did not show that the governmental ethic laws was discussed with the employees.																				
	3 - DISBURSEMENT TEST – GENERAL FUND		Condition Still prevail																		
	The following exceptions were noted:																				
	<table border="1"> <thead> <tr> <th>Supplier</th> <th>CK_NO.</th> <th>A</th> <th>B</th> <th>C</th> <th>D</th> </tr> </thead> <tbody> <tr> <td>Computer Advantage</td> <td>1821</td> <td>X</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Sidney Travel</td> <td>19378</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> </tr> </tbody> </table>	Supplier	CK_NO.	A	B	C	D	Computer Advantage	1821	X	X			Sidney Travel	19378	X	X	X	X		
Supplier	CK_NO.	A	B	C	D																
Computer Advantage	1821	X	X																		
Sidney Travel	19378	X	X	X	X																
	<ul style="list-style-type: none"> A) Requisition form without amount committed B) Requisition form without budget account C) Without three quotation D) Without invoice 																				