

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

MUNICIPIO DE COMERIO
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

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Chris

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MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2004

**MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2004
INITIAL IMPLEMENTATION OF GASB # 34**

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MUNICIPALITY OF COMERIO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

Carlos R. Diaz Negrón

234-4246

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, Puerto Rico**

I have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the Municipality of Comerío of and for the year ended June 30, 2004 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the business-type activities. Those statements were audited by other auditors whose report has been furnish to me, and in my opinion, insofar as it relates to the amounts included for Río Plata Development, is based solely on the report of the other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

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

As described in Note 2 to the basic financial statements, the Municipality of Comerío has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of and for the year ended June 30, 2004.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In accordance with Government Auditing Standards, I have also issued a report dated October 1, 2004, in my consideration of Municipality of Comerío's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts grants agreements and other matters. The purposes of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 39 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Comerío's 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 not a required part of the basic financial statements of Municipality of Comerío. 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.



October 1, 2004
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2004

The stamp No. **2002162** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Introduction

The following discussion presents an overview of the financial position and financial activities of the Municipality of Comerio (The Municipality) for the year ended June 30, 2004. This discussion was prepared by the Municipality management and should be read in conjunction with the financial statements and notes thereto, which follow.

Financial Highlights

The financial position of the Municipality remains strong at June 30, 2004, with total assets of \$37,201,841, total liabilities of \$6,343,548 and total net assets of \$30,858,293. Municipality net assets increased \$12,697,283 in comparison with the June 30, 2003 balance of \$18,161,010. An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement. Since this is the initial fiscal year for the Municipality's implementation of Governmental Accounting Standard Board Statement No. 34, this overview will, for the most part, not include comparisons with prior periods. In future years, comparisons will be provided.

Condensed Financial Statements for the Municipality at and for the year ended June 30, 2004.

Condensed Statement of Net Assets

Assets	
Cash and cash equivalents	\$ 3,716,480
Investment in certificate of deposits	9,425,000
Capital assets	22,364,746
Other assets	<u>1,695,615</u>
	<u>37,201,841</u>
Liabilities	
Accounts payable and accrued expenses	1,013,210
Long-term debt	4,215,052
Other liabilities	<u>1,115,286</u>
	<u>6,343,548</u>
Net Assets	
Invested in capital assets	20,936,319
Restricted for debt service	266,318
Restricted for state and federal programs	10,104,727
Unrestricted	<u>(449,071)</u>
	<u>\$30,858,293</u>

**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

Condensed Statement of Revenues, Expenditures and Changes in Fund Balance

Revenues:

Property taxes	\$ 1,390,334
Municipal tax	384,217
Grants and entitlements	17,873,400
Income form donated assets	4,267,867
Licenses and permits	914,655
Interest and others	492,656
	<u>25,443,819</u>

Expenditures:

General administration	5,270,179
Public safety	654,601
Education, culture and recreational	580,945
Public works and sanitation	3,631,544
Health and welfare	1,703,788
Public relation	285,133
Housing	567,123
Interest	53,223
	<u>12,746,536</u>

Excess of Revenues over Expenses

\$12,697,283

MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2004

Using the Financial Statements

The Municipality's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements – And Management's Discussion and Analysis – For Public Colleges and Universities – an amendment of GASB Statement No. 34*; in June 2001 by GASB Statement No. 37, *Basic Financial Statements – And Management's Discussion and Analysis – for State and Local governments*: And also in June 2001 GASB No. 38, *Certain Financial Statement Disclosures*. The change in the presentation of the statements is effective for this year for the Municipality. The financial statement presentation required by GASB statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the Municipality's assets, liabilities, net assets, revenues, expenditures, changes in net assets and cash flows. A significant change required by GASB Statements No. 34 and 35 is that depreciation is now presented as a part of the expenditures and the acquisition of capital assets is not. Previously, the Municipality's financial statements focused on the accountability of individual fund groups rather than on the Municipality as a whole.

The financial statements report information of the Municipality as a whole and include the financial results of Rio Plata Development, a Business Type Division of the Municipality.

Analysis of Financial Position and Results of Operations

Statement of Net Assets

The statement of net assets presents the assets, liabilities and net assets of the Municipality as of the fiscal year ended June 30, 2004. The net assets are displayed in three parts, invested in capital assets, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by the Municipality to meet current expenses for any purposes. The statement of net assets, along with the Municipality's basic financial statements, is prepared under the accrual basis of accounting, whereby revenues are recognized when realized and expenses are recorded when the service or good is received, regardless of when the cash is exchanged.

**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

Cash and cash equivalents represent 10% of total assets while investment in certificates of deposit represents 25% of it. Capital assets amount to 60% of total assets. The other 6% are receivables and restricted cash.

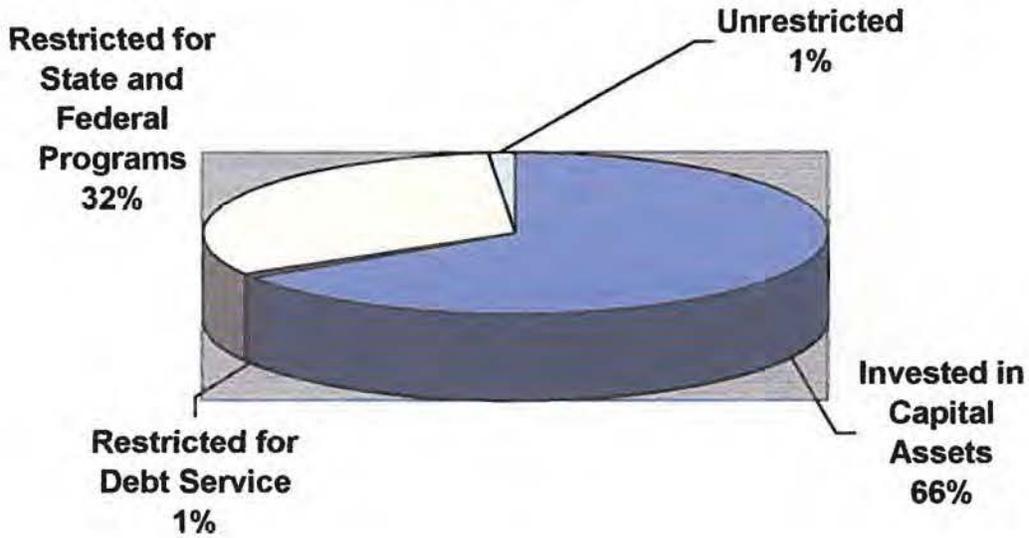
Capital assets increased from \$14,851,747 at June 30, 2003 to \$22,364,746 June 30, 2004. The last one is the responsible for the increase in total net assets for this fiscal year.

Current liabilities consist primarily of accounts payable and accrued expenses which represents 16% of total liabilities, and long term debt which amounts to 66% of total liabilities. Other items included are deferred revenue, deposits and due to other agencies.

Net assets represent the residual interest in the Municipality's assets after liabilities are deducted.

**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

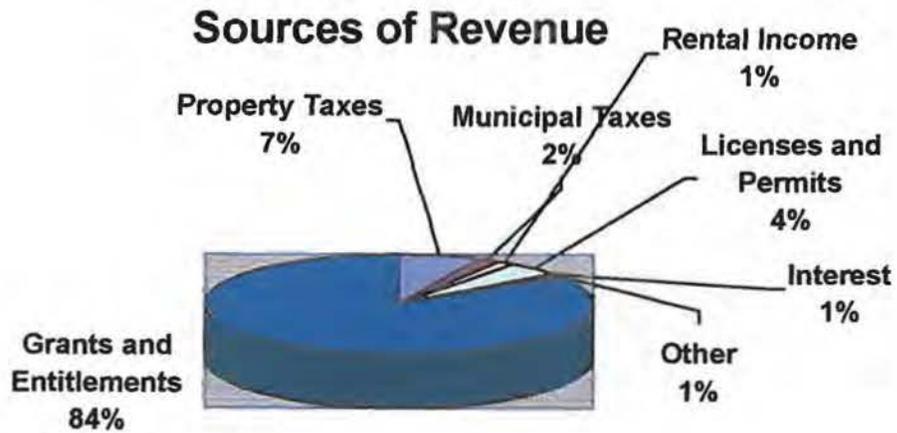
Net Assets



Net assets amounts to \$ 30,858,293 and 66% of them or \$20,936,319 are invested in capital assets net of related depreciation. 32% of them or \$10,104,727 are Restricted for State and Federal Programs. The amount restricted for debt service amounts to \$266,318 and the unrestricted net assets are \$(449,071).

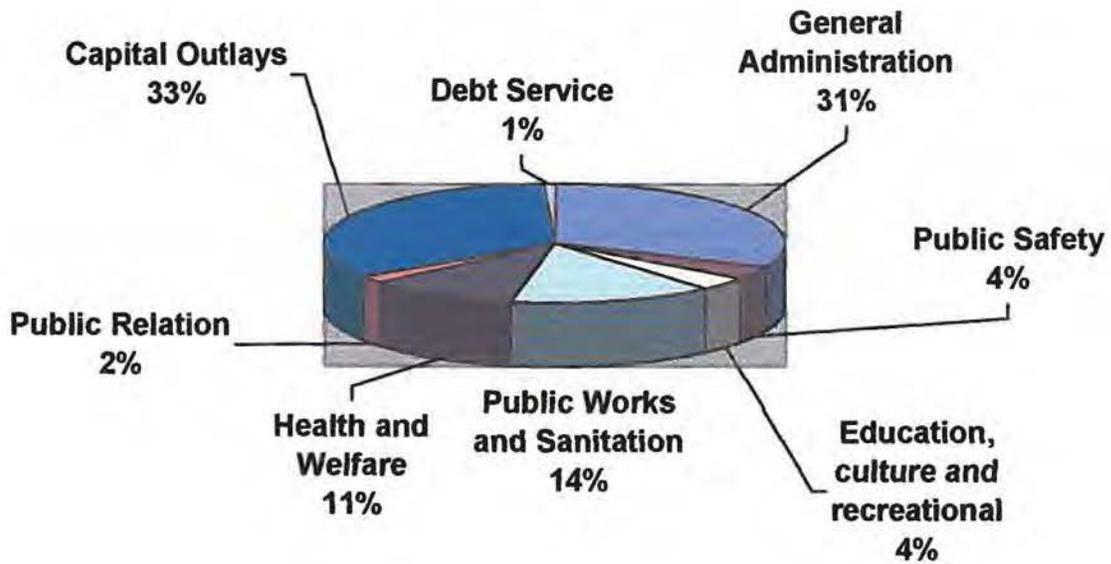
**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30,2004**

The following illustration demonstrates the Municipality's major sources of revenues.



**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30,2004**

Expenditures



**MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

Capital Assets

Significant Capital Assets additions during this period were: The construction of a communal center in Bo. Cedrito, la Prieta at an approximate cost of \$242,642. The construction of a communal center in Bo. Piñas at an approximate cost of \$150,000. The reconstruction of the "Casa de la Cultura" building at an approximate cost of \$300,000 and the construction of the "Centro de Recepciones" in the Media Luna Area at an approximate cost of \$700,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF NET ASSETS
JUNE 30, 2004**

PRIMARY GOVERNMENT

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 3,684,811	\$ 31,619	\$ 3,716,480
Cash with fiscal agent	5,884		5,884
Investment in certificates of deposit	9,425,000		9,425,000
Accounts receivable other agencies	803,607		803,607
Other receivables	8,136	3,508	11,644
Restricted cash		874,530	874,530
Capital assets, net	<u>20,891,920</u>	<u>1,472,826</u>	<u>22,364,746</u>
Total Assets	<u>\$34,819,358</u>	<u>\$2,382,483</u>	<u>\$37,201,841</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	\$ 983,899	\$ 29,311	\$ 1,013,210
Deferred revenue	309,132		309,132
Deposits	44,144	13,910	58,054
Due to other agencies	748,100		748,100
Long-term debt:			
Due within one year	190,090	61,112	251,202
Due in more than one year	<u>2,596,535</u>	<u>1,367,315</u>	<u>3,963,850</u>
Total Liabilities	<u>4,871,900</u>	<u>1,471,648</u>	<u>6,343,548</u>
Net Assets:			
Invested in capital assets, net of related liabilities	20,891,920	44,399	20,936,319
Restricted for:			
Debt service	266,318		266,318
State and federal programs	9,230,197	874,530	10,104,727
Unrestricted	<u>(440,977)</u>	<u>(8,094)</u>	<u>(449,071)</u>
Total Net Assets	<u>\$29,947,458</u>	<u>\$ 910,835</u>	<u>\$30,858,293</u>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ 5,270,179		\$ 903,804		\$(4,366,375)
Public safety	654,601			\$ 104,275	(5550,326)
Education, culture and recreational	580,945			254,954	(325,991)
Public works and sanitation	3,631,544	\$293,832			(3,337,712)
Health and welfare	1,703,788			829,409	(874,379)
Public relations	285,133				(285,133)
Interest	53,223				(53,223)
Total governmental activities	<u>\$12,179,413</u>	<u>\$293,832</u>	<u>\$ 903,804</u>	<u>\$1,188,638</u>	<u>\$(9,793,139)</u>
Business type-activities:					
Housing	<u>567,123</u>	<u>53,996</u>	<u>456,237</u>		<u>(56,890)</u>
Total business-type activities	<u>567,123</u>	<u>53,996</u>	<u>456,237</u>		<u>(56,890)</u>
Total	<u>\$12,746,536</u>	<u>\$347,828</u>	<u>\$1,360,041</u>	<u>\$1,188,638</u>	<u>\$(9,850,029)</u>

(Continue)

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2004**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	\$(9,793,139)	\$ (56,890)	<u>\$(9,850,029)</u>
General revenue:			
Taxes:			
Property taxes	1,390,334		1,390,334
Municipal tax	384,217		384,217
Grants and entitlements	15,324,721		15,324,721
Income from donated asset	4,267,867		4,267,867
Licenses and permits	914,655		914,655
Interest	144,828		144,828
Other	<u>110,480</u>	<u>10,210</u>	<u>120,690</u>
Total general revenues	<u>22,537,102</u>	<u>10,210</u>	<u>22,547,312</u>
Changes in net assets	12,743,963	(46,680)	12,697,283
Net assets at beginning	<u>17,203,495</u>	<u>957,515</u>	<u>18,161,010</u>
Net assets at end	<u>\$29,947,458</u>	<u>\$910,835</u>	<u>\$30,858,293</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	GENERAL FUND	DEBT SERVICE FUND	SPECIAL COMMUNITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:					
Cash in bank	\$ 901,839	\$266,318	\$ 843,140	\$1,673,514	\$ 3,684,811
Cash with fiscal agent				5,884	5,884
Investment in saving certificates	3,975,000		3,000,000	2,450,000	9,425,000
Receivables:					
Amount due from:					
Other governmental agencies	668,996			134,610	803,606
Other funds	598,639			2,379,812	2,978,451
Other	<u>1,911</u>			<u>6,225</u>	<u>8,136</u>
Total Assets	<u>\$6,146,385</u>	<u>\$266,318</u>	<u>\$3,843,140</u>	<u>\$6,650,045</u>	<u>\$16,905,888</u>
Liabilities:					
Accounts payable and accrued expenses	\$ 612,260			\$ 342,472	\$ 954,732
Deferred revenues	201,164			107,968	309,132
Deposits	44,144				44,144
Due to other fund	2,379,812			598,639	2,978,451
Other agencies	<u>748,100</u>				<u>748,100</u>
Total Liabilities	<u>3,985,480</u>			<u>1,049,079</u>	<u>5,034,559</u>
Fund Balance					
Reserve for:					
Debt service		\$266,318			266,318
State and federal programs			\$3,843,140	5,600,966	9,444,106
Undesignated	<u>2,160,905</u>				<u>2,160,905</u>
Total Fund Balance	<u>2,160,905</u>	<u>266,318</u>	<u>3,843,140</u>	<u>5,600,966</u>	<u>11,871,329</u>
Total liabilities and fund balance	<u>\$6,146,385</u>	<u>\$266,318</u>	<u>\$3,843,140</u>	<u>\$6,650,045</u>	<u>\$16,905,888</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Fund Balances in Governmental Funds	\$11,871,329
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,891,920
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(1,025,174)
Accrued interest payable	(29,166)
Compensated absences	(939,353)
Advances from CRIM	<u>(822,098)</u>
<i>Net Assets of Governmental Activities</i>	<u>\$29,947,458</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

	GENERAL FUND	DEBT SERVICE FUND	SPECIAL COMMUNITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property taxes	\$1,203,752	\$186,582			\$ 1,390,334
Municipal tax	384,217				384,217
Grants and entitlements	5,736,274		\$3,843,140	\$7,837,749	17,417,163
Rental income	293,832				293,832
Licenses and permit	914,655				914,655
Interest	136,771	1,832		6,225	144,828
Other	110,480				110,480
Total Revenues	<u>8,779,981</u>	<u>188,414</u>	<u>3,843,140</u>	<u>7,843,974</u>	<u>20,655,509</u>
Expenditures:					
General administration	4,698,797			276,442	4,975,239
Public safety	482,355			91,862	574,217
Education, culture and recreational	256,890			309,501	566,391
Public works and sanitation	2,289,600				2,289,600
Health and welfare	524,077			1,176,750	1,700,827
Public Relation	285,133				285,133
Capital outlays				5,327,839	5,327,839
Debt service:					
Principal		102,826			102,826
Interest		49,411			49,411
Total expenditures	<u>8,536,852</u>	<u>152,237</u>	<u>3,843,140</u>	<u>7,182,394</u>	<u>15,871,483</u>
Excess of revenue over Expenditures	<u>243,129</u>	<u>36,177</u>	<u>3,843,140</u>	<u>661,580</u>	<u>4,784,026</u>

(Continue)

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

	GENERAL FUND	DEBT SERVICE FUND	SPECIAL COMMUNITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess of revenues over expenditures	<u>\$ 243,129</u>	<u>\$ 36,177</u>	<u>\$3,843,140</u>	<u>\$ 661,580</u>	<u>\$ 4,784,026</u>
Other financing sources (uses):					
Operating transfer in	1,871			147,500	149,371
Operating transfer out	<u>(147,500)</u>	<u>(1,871)</u>	_____	_____	<u>(149,371)</u>
Total other financing sources	<u>(145,629)</u>	<u>(1,871)</u>	<u>3,843,140</u>	<u>147,500</u>	_____
Excess of revenues and other financing source over (under) expenditures and other financing sources	97,500	34,306	3,843,140	809,080	4,784,026
Fund balance at beginning of year	<u>2,160,905</u>	<u>232,012</u>	_____	<u>4,791,886</u>	<u>7,087,303</u>
Fund balance at end of year	<u>\$2,160,905</u>	<u>\$266,318</u>	<u>\$3,843,140</u>	<u>\$5,600,966</u>	<u>\$11,871,329</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

Net change in fund balances – total governmental funds	\$ 4,784,026
<i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	4,101,628
Capital assets donated recorded as income in the net assets of governmental activities.	4,267,867
Governmental funds report principal payments on long-term debt as expenditures, whereas the principal payments reduce the long-term debt in the statement of net assets.	102,826
Change in accrued interest expense which does not require the use of current financial resources.	(3,812)
Change in accrued compensating absences.	158,987
Governmental funds report payments of other long-term debt as expenditures where as The payment reduces the long term is the obligate in the statement of net assets.	76,332
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	<u>(743,892)</u>
<i>Changes in Net Assets of Governmental Activities</i>	<u>\$12,743,963</u>

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

1. ORGANIZATION

The Municipality of Comerío (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Assembly, which has twelve members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the Municipality has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Comerío, this includes various services including police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality's Assembly through the budgetary process.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

1) General Fund

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

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

3) Specials Communities Fund

This is a special fund created for the accountability of a grant of \$10,986,300 which proceeds are intended to be used for infrastructure projects in special communities among the Municipality. As of June 30, 2004, the Municipality has received \$3,843,105 from this grant.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Assets and the Statement of Activities, both government and business like activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method 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 government 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 a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (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. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from 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). Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net assets.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality has elected to no capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reservation of fund balance

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

1) Debt/ service

Represents net assets available to finance future debt service payments.

2) Restricted assets:

Restricted assets include cash and investment of the business-type activities that are legally restricted as to his used. The restricted assets are related to replacement reserve, residual receipts reserve and tenants deposit held in trust.

3) State and federal programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2004 amounted to approximately \$177,451. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$323,176 for workers compensation insurance covering all municipal employees.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

Use of estimates

The preparation of financial statements in conformity 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 financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates

Budgets and budgetary accounting

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General and Debt service funds. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 31, the Mayor submits to the Municipal Assembly a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- 3) Public hearings are conducted at the Municipal Assembly Room to obtain citizens comments
- 4) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 5) The Municipal Assembly approves, by ordinance, budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Assembly.
- 6) Unused appropriations for the annual budgeted funds lapse at the end of year.

Deposits and investments

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. The Municipality's bank balances in commercial banks of approximately \$1 million in the general fund were fully collateralized at June 30, 2004.

3. PROPERTY TAX

According to the Public Act No. 83, enacted on August 30, 1991, known as Act of Municipal Property Tax, the Municipal Revenues Collection Center (CRIM) is responsible for the assessment, administration and collection of all the real and personal property located in the Municipality.

Annually, the CRIM notifies the Municipality the estimated basic and additional special taxes to be collected during the next fiscal year and advances the Municipality the basic tax. These advances are amortized through the subsequent collection of the basic property tax and the related debt or receivable is recorded in the General fund when CRIM notify to the Municipality of the final settlement.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

3. PROPERTY TAX (CONTINUED)

Property taxes are levied annually over the assessed value of the property at the beginning of the calendar year, which amounts to 6.08% for the personal property and 8.08% for the real property. The assessed value of real property evolves from 1957 estimated values and of personal property from the current value at the date of the assessment. The Municipality grants business with a volume of less than \$150,000 full personal property tax exemption up to \$50,000 of the assessed value of the property.

Also, property tax laws grant, under certain circumstances, a tax exemption for the first \$15,000 of the assessment value of the principal residence occupied by its owner. Nevertheless, the Department of the Treasury pays to the Municipality the basic tax related to that \$15,000, except for properties that have an assessed value of less than \$3,500, which have full exemption. Of the total tax imposed, 1.03% belongs to the CRIM and the remaining to the Municipality. From this amount, 4% for personal property and 6% for real property is known as the basic tax and is recorded in the General fund. The remaining 1.05% is known as the additional special tax which is used to pay the public debt and is retained by the CRIM for such purposes. The additional tax is recorded as revenue in the Debt service fund when collected by the CRIM and reported to the Municipality.

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable and if the same is collectible within the 60 days period after the balance sheet date as required by the generally accepted accounting principles applicable to governmental entities. The records of such receivable are kept and maintained by the CRIM.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15 1999. As of June 30, 2004 the amount due to CRIM amounting to \$822,098 is presented as other long-term debt (see Note 10).

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2004, \$201,164 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets.

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

6. DEFERRED REVENUE

Municipal Tax

The deferred revenue of \$201,164 in the general fund related to the municipal license tax collected in the fiscal year 2003-2004 that will be earned in fiscal year 2004-2005.

Federal Government

The deferred revenue presented in other governmental funds is the portion of federal grants received for which qualifying expenditures have not been incurred.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

7. COMMITMENTS AND CONTINGENCIES

At June 30, 2004, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

8. RESTRICTED DEPOSIT

Cash in the Enterprises Fund included restricted deposits as follows:

Escrow deposit	\$ 29,215
Tenant security deposits	15,054
Reserve for replacement	754,833
Residual receipts	<u>5,829</u>
	<u>\$804,931</u>

Under the term of the Administrative Order, the Project is required to set aside specified amounts and the surplus cash deposits for the replacement of property and other project expenditures as approved by USDA-Rural Development.

The Project maintains a restricted cash account for insurance escrow. In addition, all tenant security deposits are deposited into a separate bank account and held in trust for the tenants until they vacate the property. Any amounts not returned to the tenant due to leave violations are transferred to the Projects' general operating account. Restricted funds are held in separate accounts and are not available for operating purposes.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,944,226	\$2,504,565	\$	\$ 6,448,791
Construction progress	<u> </u>	<u>3,247,694</u>	<u> </u>	<u>3,247,694</u>
Total capital assets not being depreciated	<u>3,944,226</u>	<u>5,752,259</u>	<u> </u>	<u>9,696,485</u>
Capital assets being depreciated:				
Buildings	8,671,867	1,946,460		10,618,327
Equipment	557,928	266,614		824,542
Buildings improvements	1,193,746	263,093		1,456,839
Furnishing	199,676	18,258		217,934
Work of art	1,580			1,580
Computer	147,342	12,149		159,491
Vehicles	<u>2,647,529</u>	<u>110,660</u>	<u> </u>	<u>2,758,188</u>
Total capital assets being depreciated	<u>3,419,668</u>	<u>2,617,234</u>	<u> </u>	<u>16,036,902</u>
Less accumulated depreciation for:				
Buildings	(1,634,375)	(227,747)		(1,862,122)
Equipment	(363,718)	(87,759)		(451,477)
Buildings improvements	(133,925)	(33,930)		(167,855)
Furnishing	(143,452)	(20,362)		(163,814)
Work of art	(1,405)	(86)		(1,491)
Computer	(121,058)	(16,260)		(137,318)
Vehicles	<u>(1,699,642)</u>	<u>(357,748)</u>	<u> </u>	<u>(2,057,390)</u>
Total	<u>(4,097,575)</u>	<u>(743,892)</u>	<u> </u>	<u>(4,841,467)</u>
Total depreciable capital assets, net	<u>9,322,093</u>	<u>1,873,342</u>	<u> </u>	<u>11,195,435</u>
Governmental activities capital assets net	<u>13,266,319</u>	<u>7,625,601</u>	<u> </u>	<u>20,891,920</u>

(Continue)

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

9. CAPITAL ASSETS (CONTINUED)

<u>Primary Government</u>	<u>Balance June 30, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2004</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	\$ 134,360	\$ _____	\$ _____	\$ 134,360
Capital assets being depreciated:				
Building and improvements	3,769,034			3,769,034
Equipment	96,682	20,849		117,531
Furnishing	<u>25,875</u>	<u>6,320</u>		<u>32,195</u>
	<u>3,891,591</u>	<u>27,169</u>		<u>3,918,760</u>
Less accumulated depreciation:				
Building and improvements	(2,335,010)	(125,972)		(2,460,982)
Equipment	(83,035)	(11,031)		(94,962)
Furnishing	<u>22,378</u>	<u>(1,968)</u>		<u>(24,346)</u>
	<u>(2,440,423)</u>	<u>(139,971)</u>		<u>(2,580,294)</u>
Total depreciation, capital, assets net	<u>1,451,168</u>	<u>(112,702)</u>		<u>1,338,466</u>
Business activities capital assets, net	<u>\$1,585,528</u>	<u>\$ (112,702)</u>	<u>\$ _____</u>	<u>\$1,472,826</u>

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General administration	\$530,262	
Public safety	80,383	
Public works	70,819	
Education, culture and recreation	14,554	
Health and welfare	2,961	
Community development	44,913	
Housing	_____	\$139,871
Total depreciation expense	<u>\$743,892</u>	<u>\$139,871</u>

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

10. LONG-TERM DEBT

Governmental activities:

A. Bonds:

\$342,000 serial bond of 1991 payable in annual principal installments of \$14,000 to \$26,000 through January 12, 096 plus interest at 5.75%	\$228,020
\$400,000 serial bonds of 1992 payable in annual principal installments ranging from \$4,000 to \$7,000 through January 1, 2016, plus interest at 5%	63,000
\$505,000 serial bond of 2002 payable in annual principal installments ranging from \$70,000 to \$40,000 through Jul1, 2027, plus interest at 5% to 6.5%	<u>495,000</u>
	<u>\$786,000</u>

B. Notes:

\$350,000 serial of 1998 payable in annual installments of \$55,000 and 60,000 through July 1, 2005, plus interest from 4.865% to 6.31%	\$115,000
\$165,000 serial of 2001 payable in annual installments ranging from \$22,000 to \$28,000 through January 1, 2009 plus interest at 4.5%	<u>124,000</u>
	<u>239,174</u>
	<u>\$1,025,174</u>

Business-type activities:

Mortgage note payable in monthly installments of \$14,436 including interest at 9%. The note is collateralized by a residential building.	<u>\$1,367,315</u>
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**MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

10. LONG-TERM DEBT (CONTINUED)

Advances from CRIM

These amounts represent the balance owed to CRIM at June 30, 2004 as described in Note 3 and is payable in monthly aggregated installments of \$2,537 through 2032 including interest at 6.1%.

The annual debt service requirements to maturity long-term debt as of June 30, 2004 are as follows:

	<u>Governmental –type Activities</u>	
<u>Bonds Payable</u> <u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 8,000	\$ 40,760
2006	28,000	44,325
2007	29,000	42,450
2008	31,000	40,788
2009	32,000	39,018
2010-2014	205,000	162,566
2015-2019	158,000	102,720
2020-2024	135,000	63,150
2025-2028	<u>140,000</u>	<u>17,700</u>
	<u>\$786,000</u>	<u>\$553,477</u>
<u>Notes Payable</u> <u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 77,000	10,287
2006	83,174	6,216
2007	25,000	3,555
2008	26,000	2,430
2009	<u>28,000</u>	<u>1,260</u>
	<u>\$239,174</u>	<u>\$ 23,748</u>

**MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

10. LONG-TERM DEBT (CONTINUED)

Due to CRIM:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 15,049	\$ 50,390
2006	16,002	49,436
2007	17,017	48,422
2008	18,095	47,343
2009	19,242	46,197
2010-2004	116,122	211,070
2015-2019	114,905	174,608
2020-2024	148,527	135,034
2025-2028	202,222	81,340
2029-2032	<u>154,917</u>	<u>15,221</u>
	<u>\$822,098</u>	<u>\$859,061</u>

Business-type activities

Mortgage note payable:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 61,112	\$112,064
2006	66,200	106,987
2007	71,711	101,488
2008	79,831	95,534
2009	84,147	89,085
2010-1014	537,838	328,321
2015-2018	<u>527,588</u>	<u>79,742</u>
	<u>\$1,428,427</u>	<u>\$913,220</u>

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

10. LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30, 2004 was as follows:

Primary Government Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Bonds Payable	\$ 813,000		\$ 27,000	\$ 786,000	\$ 28,000
Notes Payable	<u>315,000</u>		<u>75,826</u>	<u>239,174</u>	<u>77,000</u>
Total bonds and notes	<u>1,128,000</u>		<u>102,826</u>	<u>1,025,174</u>	<u>105,000</u>
Other long-term debt:					
Advance from CRIM	898,430		76,332	822,098	15,049
Compensated absences	<u>1,098,340</u>		<u>158,987</u>	<u>939,353</u>	<u>70,041</u>
	<u>1,996,770</u>		<u>235,319</u>	<u>1,761,451</u>	<u>85,090</u>
Total	3,124,770		338,145	2,786,625	190,090
Business-type activities:					
Mortgage payable	<u>1,481,410</u>		<u>52,983</u>	<u>1,428,427</u>	<u>61,112</u>
Total	<u>\$4,606,180</u>		<u>\$391,128</u>	<u>\$4,215,052</u>	<u>\$251,202</u>

11. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

11. RETIREMENT SYSTEM (CONTINUED)

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined, otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275% of the participant's gross salary.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

MUNICIPALITY OF COMERIO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

11. RETIREMENT SYSTEM (CONTINUED)

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Bank is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions to the above mentioned plans during the year ended June 30, 2004 amounted to approximately \$230,149. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System.

At June 30, 2004, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
BUDGETARY COMPARISON SCHEDULE-GENERAL FUNDS
YEAR ENDED JUNE 30, 2004**

GENERAL FUND				
	ORIGINAL BUDGET	BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	\$ 557,868	\$ 557,868	\$ 956,377	\$ 398,509
Municipal tax	390,450	390,450	384,217	(6,233)
Grants and entitlements	5,662,621	5,662,621	5,736,274	73,653
Rental income	223,545	223,545	253,832	30,287
Licenses and permits	1,063,298	1,063,298	1,162,030	98,732
Interest	131,900	131,900	138,641	6,741
Other	<u>1,966,832</u>	<u>1,966,832</u>	<u>150,481</u>	<u>1,816,351</u>
Total revenues	<u>9,996,514</u>	<u>9,996,514</u>	<u>8,781,852</u>	<u>(1,214,662)</u>
Expenditures:				
General administration	5,262,885	5,622,570	4,698,797	(923,773)
Public safety	707,841	520,075	482,355	37,720
Education, culture and recreational	309,493	304,502	256,890	47,611
Public works and sanitation	2,848,817	2,663,769	2,437,100	226,668
Health and welfare	574,116	579,116	524,077	55,039
Public relation	<u>293,362</u>	<u>306,482</u>	<u>285,133</u>	<u>21,349</u>
Total expenditures	<u>9,996,514</u>	<u>9,996,514</u>	<u>8,684,352</u>	<u>1,312,162</u>
Excess of revenue over expenditure	\$ _____	\$ _____	\$ 97,500	\$ 97,500

MUNICIPALITY OF COMERIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

MUNICIPALITY OF COMERIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban</u>		
<u>Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$1,510,434
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	617,019
Emergency Shelter Grant Program	14.231	81,498
<u>US Department of Justice</u>		
Direct program:		
Public Safety Partnership and Community		
Policing Grants (COPS)	16.712	44,382
Crime Victim Assistance Program	16.575	28,083
<u>US Department of Agriculture</u>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	9,220
<u>US Department of Health and Human Services</u>		
Basses through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	<u>147,878</u>
		 <u>\$2,438,514</u>

MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Comerio and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments and Non profit organizations. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

**REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARD**

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, Puerto Rico**

I have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Municipality of Comerío, Puerto Rico**, as of and for the year ended June 30, 2004 which collectively comprise the Municipality of Comerío's basic financial statements and have issued my report there on dated October 1, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

Compliance

As part of obtaining reasonable assurance about whether Municipality of Comerio's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts and grants agreements, 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 my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standard.

This report is intended solely for the information and use of the management and Municipal Legislative Body of Municipality of Comerio, federal awarding agencies and passed through-entities and is not intended to be and should not be used by anyone other than these specified parties.

October 1, 2004
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2007



The stamp No. 2002163 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

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

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, Puerto Rico**

Compliance

I have audited the compliance of Municipality of Comerío, Puerto Rico, 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. Municipality of Comerío, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Comerío, Puerto Rico's management. My responsibility is to express an opinion on Municipality of Comerío, Puerto Rico's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of State and 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 non-compliance 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 Comerío, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstance.

I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Comerío, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

In my opinion, Municipality of Comerío, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2004. However, the results of my auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying finding 01-04.

Internal Control Over Compliance

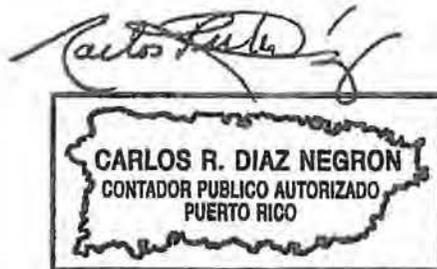
The management of Municipality of Comerío, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Comerío, Puerto Rico's internal control over compliance with requirement 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 our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the management and Municipal Legislative Body of the Municipality of Comerío, 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.

October 1, 2004
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2007



The stamp No. 2002164 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

**MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION II. – FINANCIAL STATEMENTS FINDINGS:

NONE

**MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

Finding No. 01-04 - Eligibility test – Secion 8

Federal program:

CFDA - Housing Choice Voucher

Compliance requirement:

Eligibility

Category:

Compliance

Condition:

As part of our audit procedures we select 25 participants file to test the eligibility and special test and provision requirements of the Housing Choice Voucher Program and the following exceptions were noted:

<u>Condition</u>	<u>Exceptions</u>
Reasonable rent was no determined.	1
Re-examination was not done within the 30 days period.	4
Verification of income was no obtained.	3
No documentation of the reasonable rent determination.	2
No comparability obtained for reasonable rent determination.	1
Residence with deficiencies but the inspector approved the inspection report.	1
Notification to correct deficiencies was not send.	2

**MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
(CONTINUED):**

Finding No. 01-04 - Eligibility test – Secion 8 (Continued)

<u>Condition</u>	<u>Exception</u>
Only one comparable was obtain to determined the reasonable rent.	1
Inspection was not approved.	1
In addition, the supporting documents to determine the utility allowance was not available for examination.	

Criteria:

24 CFR Sections 982.201, 982.515 and 982.516 establish that the PHA should determine income eligibility and calculate the tenants rent payment using the documentation from third party verification

24 CFR Sections 982.4, 982.54 (d) (15), 982.158 (f) (7) and 982.507 establish that the PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract).

24 CFR Sections 982.158 (d) and 982.404 establish that for the units under HAP contract that fail to meet Housing Quality Standard (HQS), the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family’s failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligation.

24 CFR Section 982.517 establishes that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised.

MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED):

Finding No. 01-04 - Eligibility test – Secion 8 (Continued)

Effect:

The continue occurrence of the condition may result in the disallowance of program cost. In addition, the ability to manage federal awards in compliance with laws, regulations and provision of contracts grant awards could also questioned.

Questioned costs

Undetermined

Recommendation

I recommend that the Municipality establish and adequate internal control system to ascertain that comply with the requirements of the program. The internal control system should include the following:

- a) The file should be reviewed by the internal audit department.
- b) The documentation requirements for the determinate of ability allowance and recommendable rent.

MUNICIPALITY OF COMERIO
STATUS OF PRIOR YEAR AUDIT FINDINGS
AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

**MUNICIPALITY OF COMERIO
STATUS OF PRIOR YEARS AUDIT
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

NONE