

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

MUNICIPIO DE COROZAL
AUDITORIA 2002-2003
30 DE JUNIO DE 2003

**MUNICIPALITY OF
COROZAL, PUERTO RICO**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedules**

Year Ended June 30, 2003

MUNICIPALITY OF COROZAL, PUERTO RICO

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
YEAR ENDED JUNE 30, 2003

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MUNICIPALITY OF COROZAL, PUERTO RICO

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
ENDED JUNE 30, 2003**

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INDEPENDENT AUDITORS' REPORT

**The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Corozal
Corozal, PR**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the accompanying 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 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 statement. 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 and the report of other auditors provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 17, 2003 on my consideration of the Government's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

As described in Note 1, on July 1, 2002 the Municipality has implemented a new financial reporting model, required for state and local governments established by the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis- for States and Local Governments. As more fully decribed in Note 1, as part of the adoption of the new financial reporting model, on JuLY 01, 2002 the Municipality also adopted the provisions of other pronouncements issued by GASB, the Accounting Priciples Board ("APB") and the Financial Accounting Standards Board ("FASB)..

The effects of implementing the aforementioned pronouncements have been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly, the effects of such transactions have been retroactively reported as restatements of fund balances in the accompanying fund financial statements at July 1, 2002.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule-are not a required parts of the basic financial statements referred to above, but are supplementary information required by the Governmental Accounting Standards Board (GASB). I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation and of the required supplementary information. However, I did not audit the information and express no opinion there on



Juan Rivera, CPA
License 2214

December 17, 2003
Toa Baja, Puerto Rico

Stamp No. 1931643 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

MUNICIPALITY OF COROZAL, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Municipality of Corozal (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the Municipality's financial statements.

Management of the Municipality of Corozal (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments, for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

The Municipality net assets decreased by \$515,279.

In the fund financial statements, the governmental activities revenue decreased \$725,003 (or 6.1%) while governmental activities expenditures increased \$754,362 (or 7.0%).

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$1,339,253.

On a budgetary basis, actual expenditures exceeded actual revenues by \$1,157,680.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$1,569,411.

Capital expenditures for acquisition of land, vehicles, construction and improvements of recreational facilities, amounted to \$1,117,954.

The Municipality issued bonds amounting to \$1,320,000 to finance capital expenditures and improvements.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality and its component unit's accountability.

MUNICIPALITY OF COROZAL, PUERTO RICO

Reporting the Municipality as a Whole

One of the most important questions asked about the Municipality's finances is, "Is the Municipality as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. You can think of the Municipality's net assets -the difference between assets and liabilities- as one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the Municipality's roads, to assess the overall health of the Municipality.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into two kinds of activities:

Governmental activities - Most of the Municipality's basic services are reported here, including the public safety, sanitation, health, housing, public works, sports and recreation, and general administration. Property taxes, Municipal taxes, franchise fees, state contributions and federal grants finance most of these activities.

Proprietary business type activities - The Municipality includes in its report as a business type activity the operations of the Historic and Tourist Center of Cibuco. This activity is important because the Municipality is financially accountable for it.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not-the Municipality as a whole. The Municipality has two kinds of fund which are the governmental fund and proprietary fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

MUNICIPALITY OF COROZAL, PUERTO RICO

Proprietary funds are used when the Municipality charges customers for the services it provides-whether to outside customers or to other units of the Municipality-these services are generally reported in proprietary funds, Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, but provide more detail and additional information, such as cash flows, for proprietary funds.

Infrastructure Assets

Historically, a government's infrastructure (roads, bridges, traffic signals, etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2003, the Municipality commenced the prospective reporting of infrastructure assets, and retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial Position. The Municipality's combined net assets of governmental activities totaled \$13,098,865 at the end of 2003, compared to \$13,614,144 at the end of the previous- year. The combined net assets of the proprietary business type activities totaled \$6,430,613 at the end of 2003, compared to \$6,577,649 at the end of the previous- year.

The largest portion of the Municipality's net assets is the investment in capital assets such as land, buildings, improvements, vehicles, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service and amounts restricted for capital projects, represents another portion of the net assets. These are resources subject to external restrictions for the purposes explained above.

MUNICIPALITY OF COROZAL, PUERTO RICO

**Condensed Statement of Net Assets
June 30, 2003**

	<u>Governmental Activities</u>	<u>Component Unit</u>
Current assets	\$ 8,135,847	\$ 2,626
Capital assets	13,973,778	6,430,613
Other assets	<u>1,237,563</u>	<u>-</u>
Total assets	<u>23,347,188</u>	<u>6,433,239</u>
Current liabilities	4,001,131	2,626
Noncurrent liabilities	<u>6,247,192</u>	<u>-</u>
Total liabilities	<u>10,248,323</u>	<u>2,626</u>
Invested in capital assets, net of related debt	9,643,541	6,430,613
Unrestricted	(2,016,267)	
Restricted	<u>5,471,591</u>	<u>-</u>
Total net assets	<u>\$ 13,098,865</u>	<u>\$ 6,430,613</u>

Changes in Net Assets

The Municipality's net assets decreases by \$515,279. Approximately 25.0 percent of the Municipality's revenue came from taxes, while 68.5 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 6.5 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government administration, sanitation, public works, housing and depreciation.

The Business type activities net assets decreased by \$147,036. Total revenue of the business type activity came from fees. The largest expenses were for depreciation, and operations.

A comparative analysis of government-wide data is presented in next page.

MUNICIPALITY OF COROZAL, PUERTO RICO

**Condensed Statement of Activities
June 30, 2003**

Program revenues:

Charges for services	\$ 552,459
Operating grants and contributions	1,904,711

General revenues:

Property taxes	1,798,854
Municipal license tax	955,059
Interest and investment earnings	175,395
Grants and contributions not restricted	<u>5,675,700</u>

Total revenues \$ 11,062,178

Expenses:

General Administration	4,824,730
Health	410,025
Housing	680,188
Public safety	384,949
Sports and recreation	269,319
Sanitation	972,449
Elderly Centers	301,244
Interest on long-term debt	99,545
Depreciation	776,856
Public works	<u>2,858,152</u>

Total expenses 11,577,457

Change in net assets \$ (515,279)

BUSINESS TYPE ACTIVITIES

Revenues:

Fees	<u>\$ 94,380</u>
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Expenses:

Operating and maintenance	94,380
Depreciation	<u>147,036</u>

Total expenses 241,416

Change in net assets \$ (147,036)

MUNICIPALITY OF COROZAL, PUERTO RICO

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of, the Municipality's governmental- funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$5,625,279, an increase of \$255,065 in comparison with the prior year. There are reservations of fund balance amounting to \$5,596,591. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$366,937), 2) to pay debt service (\$1,237,563), 3) to pay for capital projects (\$3,279,940) or 4) for other purposes (\$712,151). Accordingly, the unreserved fund balance amounts to \$28,688 in the governmental funds.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a balance of \$395,625. The fund balance of the general fund decreased by \$1,339,253. Key factors in the decrease of the fund balance are as follows:

• Increase in total revenues	\$ 295,624
• Increase in expenditures	(626,432)
• Operating transfer to the capital project fund	(871,648)
• Other items net	(136,797)

Increase of \$295,624 in total revenues was mainly due to increases of \$279,672 in Contributions from AEE of PR, \$125,097 in Municipal License Tax and a net decrease of \$109,145 in all other revenue items

The increase of \$626,432 in expenditures is due to \$431,942 increase in public works expenditures, including repair or municipal recreational facilities, \$378,668 of capital expenditures, including the acquisition of municipal vehicles, and a net decrease in all other services of \$184,178.

The operating transfer to the Capital project fund of \$871,648 was mainly directed to the improvement of infrastructure.

Business-type Activities

Revenues of the Municipality's business-type activities reported \$94,380 while expenses amounted to \$241,416, including a charge for depreciation of \$147,036.

MUNICIPALITY OF COROZAL, PUERTO RICO

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases (decreases) in budgeted expenditures were also made since the law mandates a balanced budget.

No significant variance between budget and actual results was reported. In summary the general fund actual revenues exceeded budget by \$79,713 and actual expenditures exceeded budget by \$37,393, for a net favorable variance of \$42,320.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets, including business type activities, as of June 30, 2003, amounts to \$29,462,989, with accumulated depreciation of \$9,058,598, leaving a net book value of \$20,404,391. This investment in capital assets includes land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Infrastructure assets are items that are normally irremovable and of value only to the state, such as roads, bridges, streets and sidewalks, and similar items.

Actual expenditures to purchase or construct capital assets for governmental activities were \$1,117,954 for the year. Depreciation charges for the year totaled \$923,892, of which \$776,856 are related to governmental activities and \$147,036 to business type activities.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$2,511,536 of unexpended proceeds from bond issuances that are committed to future construction activities, including completion of the Bosque Urbano project.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt – The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes the municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special- Additional Tax (as defined below), as projected by GDB, will be sufficient to service maturity of the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

MUNICIPALITY OF COROZAL, PUERTO RICO

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

During the year ended June 30, 2003 the Municipality issued bonds amounting to \$1,320,000 to finance capital expenditures and improvements. As of June 30, 2003 the Municipality Long Term Debt is composed as follows:

Bonds payable	\$2,708,000
Notes payable	570,000
Advances from CRIM	1,133,772
Loan US Department of Agriculture	<u>1,052,237</u>
	\$5,464,009

Other long term obligations consist of \$1,036,183 of accrued compensated absences such as vacations and sick leave.

As of June 30, 2003 the Municipality redemption fund (debt service) has a balance of \$1,237,563, which is restricted for the payment of long term debt principal and interest.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as contributions and grants to carry out the governmental activities. Historically, property taxes, municipal taxes and PR Government contributions have been predictable. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal year.

The most significant change between the budget for fiscal year 2002-2003 and the one for fiscal year 2003-2004 are as follows:

1. A loan application amounting to \$2,000,000. This loan will be used to finance the Capital Improvements Program of the Municipality, including the construction of a Convention Center, and improvements to Casa Loydi project.
2. Capital expenditures for acquisition of municipal vehicles and facilities improvements, which amounted to \$850,000 in the 2002-03 budget, were not included in the 2003-04 budget.

MUNICIPALITY OF COROZAL, PUERTO RICO

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 710 or #9 Cervantes Street, Corozal, Puerto Rico 00783.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2003**

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS TYPE</u> <u>ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash, including time deposits	\$1,516,481	\$ -	\$1,516,481
Cash held with fiscal agent	2,511,536		2,511,536
Investment	2,634,774		2,634,774
Accounts receivable:			
Volume of Business Tax	45,796		45,796
Other	20,984	2,626	23,610
Due from other governments	1,406,276	-	1,406,276
Total current assets	<u>8,135,847</u>	<u>2,626</u>	<u>8,138,473</u>
Noncurrent Assets:			
Cash held with fiscal agent	1,237,563		1,237,563
Capital Assets (net of depreciation)	13,973,778	6,430,613	20,404,391
Total noncurrent assets	<u>15,211,341</u>	<u>6,430,613</u>	<u>21,641,954</u>
TOTAL ASSETS	<u>23,347,188</u>	<u>6,433,239</u>	<u>29,780,427</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	808,175	2,626	810,801
Due to other governmental units	1,373,423		1,373,423
Deferred Revenues	1,322,120		1,322,120
Accrued interest on Loan USDA	244,413		244,413
Current portion of long term debt	253,000	-	253,000
Total current liabilities	<u>4,001,131</u>	<u>2,626</u>	<u>4,003,757</u>
Noncurrent Liabilities:			
Advances from CRIM	1,133,772		1,133,772
Bonds Payable	2,708,000		2,708,000
Notes payable	570,000		570,000
Accrued compensated absences	1,036,183		1,036,183
Advances US Department of Agriculture	1,052,237	-	1,052,237
	6,500,192	-	6,500,192
Less: Reported as current portion	<u>(253,000)</u>	<u>-</u>	<u>(253,000)</u>
Total noncurrent liabilities	<u>6,247,192</u>	<u>-</u>	<u>6,247,192</u>
TOTAL LIABILITIES	<u>10,248,323</u>	<u>2,626</u>	<u>10,250,949</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	9,643,541	6,430,613	16,074,154
Restricted for Capital Projects	3,279,940		3,279,940
Restricted for Debt Service	1,237,563		1,237,563
Restricted for Other Purposes	712,151		712,151
Reserve for Encumbrances	366,937		366,937
Unrestricted	<u>(2,141,267)</u>	<u>-</u>	<u>(2,141,267)</u>
TOTAL NET ASSETS	<u>\$ 13,098,865</u>	<u>\$ 6,430,613</u>	<u>\$ 19,529,478</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

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	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
GOVERNMENTAL ACTIVITIES:							
General Administration	4,824,730	\$ 274,624	\$ -	\$ -	\$ (4,550,106)		\$ (4,550,106)
Public work	2,858,152	277,835	1,224,523		(1,355,794)		(1,355,794)
Health	410,025				(410,025)		(410,025)
Civil Defence	214,046				(214,046)		(214,046)
Municipal Police	170,903				(170,903)		(170,903)
Sports and recreation	269,319				(269,319)		(269,319)
Sanitation	972,449				(972,449)		(972,449)
Elderly Centers	301,244				(301,244)		(301,244)
Housing	680,188		680,188		-		-
Interest Payment on LT Debt	99,545				(99,545)		(99,545)
Depreciation	776,856	-	-	-	(776,856)		(776,856)
Total governmental activities	<u>11,577,457</u>	<u>552,459</u>	<u>1,904,711</u>	<u>-</u>	<u>(9,120,287)</u>		<u>(9,120,287)</u>
BUSINESS TYPE ACTIVITIES:							
Operations	94,380	94,380	-			-	-
Depreciation	147,036	-	-	-		(147,036)	(147,036)
Total business type activities	<u>241,416</u>	<u>94,380</u>	<u>-</u>	<u>-</u>		<u>(147,036)</u>	<u>(147,036)</u>
TOTAL ACTIVITIES	<u>\$ 11,818,873</u>	<u>\$ 646,839</u>	<u>\$ 1,904,711</u>	<u>\$ -</u>			<u>(9,267,323)</u>
GENERAL REVENUES:							
Property taxes, levied for general purposes					1,536,681		1,536,681
Property taxes, levied for debt services					262,173		262,173
Volume of business taxes					955,059		955,059
Government of P.R. Contributions					4,269,424		4,269,424
Contributions in lieu of taxes					1,406,276		1,406,276
Interest					175,395	-	175,395
TOTAL GENERAL REVENUES					<u>8,605,008</u>	<u>-</u>	<u>8,605,008</u>
CHANGES IN NET ASSETS					(515,279)	(147,036)	(662,315)
Prior period adjustments					(1,170,384)	5,280,000	4,109,616
Net assets - beginning of period					<u>14,784,528</u>	<u>1,297,649</u>	<u>16,082,177</u>
Net assets - ending of period					<u>\$ 13,098,865</u>	<u>\$ 6,430,613</u>	<u>\$ 19,529,478</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

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**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2003

ASSETS	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash, including time deposits	\$483,663	\$10,433	\$ -	\$ -	\$1,022,385	\$1,516,481
Cash held with fiscal agent	-		2,511,536	1,237,563		3,749,099
Investment	2,634,774					2,634,774
Accounts receivable:						-
Volume of Business Tax	45,796					45,796
Other	20,984					20,984
Due from other governments	1,406,276					1,406,276
Due from other funds	309,066	397,784	1,012,817		344,327	2,063,994
Inventories	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 4,900,559</u>	<u>\$ 408,217</u>	<u>\$ 3,524,353</u>	<u>\$ 1,237,563</u>	<u>\$ 1,366,712</u>	<u>\$ 11,437,404</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO

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BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2003
(Continued)

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
LIABILITIES						
Accounts payable	\$ 808,175	\$ -	\$ -	\$ -	\$ -	\$ 808,175
Due to other governmental units	1,373,423					1,373,423
Deferred Revenues	568,408				753,712	1,322,120
Accrued interest on Loan USDA			244,413			244,413
Due to other funds	<u>1,754,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>309,066</u>	<u>2,063,994</u>
TOTAL LIABILITIES	<u>4,504,934</u>	<u>-</u>	<u>244,413</u>	<u>-</u>	<u>1,062,778</u>	<u>5,812,125</u>
FUND BALANCES						
Reserved for:						
Inventories						-
Capital Projects			3,279,940			3,279,940
Debt Service				1,237,563		1,237,563
Other Purposes		408,217			303,934	712,151
Encumbrances	366,937					366,937
Unreserved	<u>28,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,688</u>
TOTAL FUND BALANCES	<u>395,625</u>	<u>408,217</u>	<u>3,279,940</u>	<u>1,237,563</u>	<u>303,934</u>	<u>5,625,279</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,900,559</u>	<u>\$ 408,217</u>	<u>\$ 3,524,353</u>	<u>\$ 1,237,563</u>	<u>\$ 1,366,712</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	13,973,778
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(6,500,192)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 13,098,865

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:						
Property taxes	\$ 1,536,681	\$ -	\$ -	\$ 262,173	\$ -	\$ 1,798,854
Volume of Business Taxes	955,059					955,059
Government of P.R. Contributions	4,269,424					4,269,424
Contributions in lieu of taxes	1,406,276					1,406,276
Grants and contributions	-	54,650	117,049		1,733,012	1,904,711
Charges for services	277,835					277,835
Rent	118,635					118,635
Interest	163,216			12,179		175,395
Miscellaneous	155,989	-	-	-	-	155,989
TOTAL REVENUES	<u>8,883,115</u>	<u>54,650</u>	<u>117,049</u>	<u>274,352</u>	<u>1,733,012</u>	<u>11,062,178</u>
EXPENDITURES:						-
General Administration	4,671,363				153,367	4,824,730
Public work	2,246,153	322,469			289,530	2,858,152
Health	410,025					410,025
Civil Defence	206,198				7,848	214,046
Municipal Police	170,903					170,903
Sports and recreation	269,319					269,319
Sanitation	972,126				323	972,449
Elderly Centers	130,124				171,120	301,244
Housing					680,188	680,188
CAE liquidation 2001-02				29,558		29,558
Capitol Outlay	378,668		739,286			1,117,954
Principal Retirement on Long Term Debt	15,000			164,000		179,000
Interest Payment on Long Term Debt	16,875	-	-	82,670	-	99,545
TOTAL EXPENDITURES	<u>9,486,754</u>	<u>322,469</u>	<u>739,286</u>	<u>276,228</u>	<u>1,302,376</u>	<u>12,127,113</u>
EXCESS REVENUES OVER EXPENDITURES	<u>(603,639)</u>	<u>(267,819)</u>	<u>(622,237)</u>	<u>(1,876)</u>	<u>430,636</u>	<u>(1,064,935)</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES):						
Capital related debt issued	\$ -	\$ -	\$ 1,320,000	\$ -	\$ -	\$ 1,320,000
Transfers	(735,614)	-	871,648	(12,164)	(123,870)	-
TOTAL OTHER FINANCING SOURCES	<u>(735,614)</u>	<u>-</u>	<u>2,191,648</u>	<u>(12,164)</u>	<u>(123,870)</u>	<u>1,320,000</u>
NET CHANGES IN FUND BALANCES	(1,339,253)	(267,819)	1,569,411	(14,040)	306,766	255,065
Prior periods adjustments	(695,786)		75,066		(279,726)	(900,446)
FUND BALANCES, BEGINNING OF YEAR	<u>2,430,664</u>	<u>676,036</u>	<u>1,635,463</u>	<u>1,251,603</u>	<u>276,894</u>	<u>6,270,660</u>
FUND BALANCES, END OF YEAR	<u>\$ 395,625</u>	<u>\$ 408,217</u>	<u>\$ 3,279,940</u>	<u>\$ 1,237,563</u>	<u>\$ 303,934</u>	<u>\$ 5,625,279</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

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

FOR THE YEAR ENDED JUNE 30, 2003

Net changes in fund balances - total governmental funds	\$ 255,065
Reconciling items:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,117,954) exceed depreciation expense (\$776,856) in the current period.	341,098
Repayment of Advances from CRIM for preliminar and final liquidation of CAE of Fiscal Year 2001-02 is an expenditure in the governmental funds, but the repayment of a liability in the statement of net assets	29,558
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$1,320,000) exceeded repayments (\$179,000).	<u>(1,141,000)</u>
Changes in net assets of governmental activities	<u>\$ (515,279)</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)**

JUNE 30,

2003

ASSETS

Current Assets:

Petty cash	\$	-
Cash in Bank		-
		<u>-</u>

Accounts receivable:

Other		2,626
Allowance for bad debts		-
		<u>2,626</u>

Total current assets

2,626

Fixed Assets:

Land		987,173
Buildings and improvements		5,500,000
Equipment, furniture and fixtures		261,650
Other		<u>117,180</u>

6,866,003

Accumulated depreciation		<u>(435,390)</u>
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Total fixed assets

6,430,613

Other assets:

-

Total assets

\$ 6,433,239

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable - trade	\$	2,626
Other		-
		<u>-</u>

Total current liabilities

2,626

Net assets:

Net investment in fixed assets		6,430,613
Unrestricted		-
		<u>-</u>

Net assets

6,430,613

Total liabilities and net assets

\$ 6,433,239

The accompanying notes are integral part of the financial statements.
See Independent Auditors' Report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)**

FOR THE YEAR ENDED JUNE 30,

2003

REVENUES:

Admission fee	\$ 94,380
Other income	-
Total revenues	<u>94,380</u>

EXPENSES:

Operating and maintenance	94,380
Depreciation	147,036
Other	-
	<u> </u>
COST OF OPERATIONS	<u>241,416</u>
EXCESS COSTS OVER REVENUES	(147,036)

OTHER LOSS -

CHANGE IN NET ASSETS (147,036)

Prior Period Adjustments 5,280,000

BEGINNING NET ASSETS 1,297,649

ENDING NET ASSETS \$ 6,430,613

The accompanying notes are integral part of the financial statements.
See Independent Auditors' Report.

MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

HISTORIC AND TOURIST CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)

FOR THE YEAR ENDED JUNE 30,

	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ (147,036)
Depreciation expenses	147,036
(Increase) Decrease in accounts receivable -	1,190
Increase (Decrease) in accounts payable - trade	(1,190)
Other items	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES	
(Increase) Decrease in other equipment	-
NET CASH USED IN INVESTING ACTIVITIES	-
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in mortgage payable	-
NET INCREASE (DECREASE) IN CASH	-
CASH AT BEGINNING OF YEAR	-
CASH AT END OF YEAR	\$ -

The accompanying notes are integral part of the financial statements.
See Independent Auditors' Report.

MUNICIPALITY OF COROZAL
NOTES TO BASIC FINANCIAL STATEMENTS

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- NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
- NOTE 2. DEPOSITS AND INVESTMENTS**
- NOTE 3. RECEIVABLES**
- NOTE 4. INTER FUND TRANSACTIONS**
- NOTE 5. CAPITAL ASSETS**
- NOTE 6. PROPERTY TAXES**
- NOTE 7. DEFERRED REVENUE**
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- NOTE 9. PENSION PLAN**
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- NOTE 13. SUBSEQUENT EVENTS**
- NOTE 14. PRIOR PERIOD ADJUSTMENTS**

NOTES TO BUDGETARY COMPARISON SCHEDULE

- NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

MUNICIPALITY OF COROZAL, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2003

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Corozal (the "Municipality") was founded in the year 1795. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a (14) fourteen member Municipal Legislature who are elected for four-year terms.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. As part of the implementation of GASB Statement No. 34, the Municipality adopted a retroactive reporting of its general infrastructure assets. This results in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks).

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds and decided to report the operations of the Historic and Tourist Center of Cibuco as a Business Type Activity. Also certain prior period adjustments were reported to convert prior year fund balance to GASB requirements.

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, *The Financial Reporting Entity*, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government, are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Historic and tourist Center of Cibuco (a proprietorship fund) is considered a component unit of the Municipality of Corozal and the discrete presentation method was elected for financial statement presentation.

MUNICIPALITY OF COROZAL, PUERTO RICO

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
6. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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.

6. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Capital Project Fund – is used to account for the financial resources allocated for the acquisition or construction of infrastructure and other major capital facilities.

Joint Resolutions Fund – is used to account for Commonwealth of Puerto Rico appropriations for specific purposes.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule – general fund.

MUNICIPALITY OF COROZAL, PUERTO RICO

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund - is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Funds - used to account for revenues derived from grants or other restricted revenue sources. The uses, and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Funds - are used to account for the accumulation of resources for and the payment of, general long-term debt principal interest, and related costs.

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

Proprietary Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Historic and Tourist Center of Cibuco.

D. Measurement focus, basis of accounting and financial statement presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a 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 Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20. Governmental fund financial statements are reported 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. 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 the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

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. All other revenue items are considered to be measurable and available only when the government

MUNICIPALITY OF COROZAL, PUERTO RICO

receives cash. 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 Municipality has elected not to follow subsequent private-sector guidance.

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, if any. 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, then unrestricted resources, as they are needed.

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

1. Cash, cash equivalents, and cash with fiscal agent - The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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. Cash with fiscal agent in the capital project fund consists of unused proceeds of bonds and notes issued for the acquisition and construction of major capital improvements.

2. Receivables and payables - Activity between funds that are representative of lending/borrowing, arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds"

As of June 30, 2003 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$1,338,876
PR Telephone Company	14,441
PR Sewer and Sanitary Authority	8,514
PR Treasury Department	<u>11,592</u>
	\$1,373,423

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes.

MUNICIPALITY OF COROZAL, PUERTO RICO

3. Capital assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings	50
Infrastructure	10
Building and site improvements	25
Vehicles	10
Furniture and fixtures	7
Machinery and equipment	7

4. Long-term obligations - The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long term liabilities, such as vacation, sick leave, litigation.

In the fund financial statements, governmental fund types recognize bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

5. Compensated absences - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

6. Claims and judgments - The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

MUNICIPALITY OF COROZAL, PUERTO RICO

7. Reservations of fund balance - Reservations of fund balance in the fund financial statements, 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:

- a. Capital Projects - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. Advances and Other Specified Purposes - Represents net assets available for specific use under federal grant programs, reservation of monies set aside for long-term receivables which are not considered current financing resources or other long-term assets.
- d. Debt Service Fund - Represents net assets available to finance future debt service payments.
- e. Inventory - Represents inventory that does not represent available financial resources.
- f. Other - Represents net assets legally segregated for other specific future use.

8. Interfund and intra-entity transactions - The Municipality has the following types of transactions among funds:

- a. Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. Intra-Entity Transactions - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

9. Risk financing - The Municipality carries commercial 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 CRIM for the year ended June 30, 2003 amounted to \$308,700. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$144,256 for workers compensation insurance covering all municipal employees.

10. Pursuant to and determined by an internal cost allocation plan certain costs initially borne by the General Fund are then billed as direct charges to other funds of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balances General Fund as charges for services. The corresponding expenses appear as function/program costs in the Statement of Activities.

MUNICIPALITY OF COROZAL, PUERTO RICO

NOTE 2. 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. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$483,663 in the general fund were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of \$10,433 and \$1,022,385, respectively, that were fully collateralized.

The deposits at GDB of \$2,511,536 that are restricted principally for capital projects, and the \$1,237,563 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

Investments represents certificate of deposits in the following institutions:

Banco Popular de P.R. (No. 11100018-21)	\$2,000,000
Government Development Bank of P.R. (No. 25)	<u>634,774</u>
Total	\$2,634,774

NOTE 3. RECEIVABLES

a. Volume of Business Tax - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

Financial business – 1.50% of annual gross revenues

Other organizations – 0.50% for annual gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

b. Due from other governments - Intergovernmental receivable in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA"). This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes.

MUNICIPALITY OF COROZAL, PUERTO RICO

b. **Other** – Other accounts receivable as of June 30, 2003 are as follows:

	Governmental Type Fund		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Component Unit</u>
Rent	\$ 20,624		
Other	<u>360</u>		<u>\$ 2,626</u>
Total other receivables	\$ 20,984	-0-	\$ 2,626

NOTE 4. INTER FUND TRANSACTIONS

Inter fund – receivables and payables at June 30, 2003 are summarized as follows:

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	\$ 309,066	\$ 1,754,928
Other Governmental	344,327	309,066
Joint Resolutions	397,784	
Capital Project	<u>1,012,817</u>	<u> </u>
Total	\$ 2,063,994	\$ 2,063,994

NOTE 5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes for infrastructure and construction in-progress pursuant to the implementation of GASB Statement No. 34, follows. Land are not subject to depreciation:

MUNICIPALITY OF COROZAL, PUERTO RICO

	Balance June 2003
Governmental Activities:	
Capital asset, not being depreciated:	
Land	\$ 1,309,005
Construction in progress	<u>455,299</u>
Total capital assets not being depreciated	<u>1,764,304</u>
Capital assets, being depreciated:	
Buildings and building improvements	12,753,637
Site improvements	893,742
Infrastructure	1,527,686
Equipment	814,412
Vehicles	<u>4,843,205</u>
Total capital assets being depreciated	<u>20,832,682</u>
Less accumulated depreciation for:	
Buildings and building improvements	3,496,945
Site improvements	655,445
Infrastructure	205,998
Equipment	659,293
Vehicles	<u>3,605,527</u>
Total accumulated depreciation	<u>8,623,208</u>
Total capital assets being depreciated, net	<u>12,209,474</u>
Governmental activities capital assets, net	<u>\$ 13,973,778</u>
	Balance June 2003
Business Type Activity:	
Capital asset, not being depreciated:	
Land	\$ <u>987,173</u>
Capital assets, being depreciated:	
Buildings and building improvements	5,500,000
Equipment	261,650
Vehicles	<u>117,180</u>
Total capital assets being depreciated	<u>5,878,830</u>
Less accumulated depreciation for:	
Buildings and building improvements	330,000
Equipment	<u>105,390</u>
Total accumulated depreciation	<u>435,390</u>
Total capital assets being depreciated, net	<u>5,443,440</u>
Business Type Activity Capital assets, net	<u>\$ 6,430,613</u>
Total Municipality Capital assets, net	<u>\$ 20,404,391</u>

MUNICIPALITY OF COROZAL, PUERTO RICO

NOTE 6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

On December 3, 2002, the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to \$1,133,772 and is payable in periodic installments as determined by the CRIM until amortization of balance in a 30 years period, at variable interest rate.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 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 1999-2000. The amounts that the Municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Central Government to the Municipalities are 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.

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to – the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate for fiscal year 2002-03 is 8.08% for real property and 6.08% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.55% and 3.55%, respectively, represents

MUNICIPALITY OF COROZAL, PUERTO RICO

the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of 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) 1.67% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the Property tax collected and such amount is accounted for similar to item (a) above.

NOTE 7. DEFERRED REVENUES

a. Municipal License Tax – The deferred revenues of \$568,408 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

b. Federal Government – The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description

Section 8 Housing Choice Vouchers	\$ 188,000
Section 8 Housing Assistance	111,665
SBGP	80,211
Title III	96,407
Federal Agriculture	3,209
FEMA	<u>274,220</u>
 Total	 <u>\$ 753,712</u>

NOTE 8. LONG TERM DEBT

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>GOVERNMENTAL FUND</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Bonds payable	\$1,442,000	\$1,320,000	\$ 54,000	\$2,708,000	\$ 55,000
Notes payable	695,000		125,000	570,000	130,000
Advances from CRIM	1,133,772			1,133,772	38,000
US Dep. of Agriculture	<u>751,293</u>	300,944		<u>1,052,237</u>	<u>- 0 -</u>
	4,022,065			5,464,009	<u>\$ 253,000</u>
Compensated absences	<u>1,070,272</u>		34,089	<u>1,036,183</u>	
	<u>\$5,092,337</u>			<u>\$6,500,192</u>	

MUNICIPALITY OF COROZAL, PUERTO RICO

Bonds payable – The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for \$1,320,000. Bonds payable outstanding at June 30, 2003 are as follows:

	<u>Outstanding Amount</u>
\$1,310,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026; with interest ranging from 2.7% to 5.6%	\$ 1,290,000
\$250,000 - 1983 serial bonds due in annual installments of \$2,000 to \$25,000, through July 1, 2009; (USDA) with interest at 9.75%	118,000
\$1,320,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026; with interest ranging from 5.0% to 8.0%	<u>1,300,000</u>
Total	<u>\$ 2,708,000</u>

These bonds are payable from the ad valorem property tax of 1.67% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Notes payable – The proceeds of the issuance of notes payables were used principally to the acquisition and improvement of major capital assets. . Notes payable outstanding at June 30, 2003 are as follows:

	<u>Outstanding Amount</u>
\$400,000 - special lottery fund loan payable in quarterly installments of \$10,000 to \$40,000, through July 1, 2005; with interest at 8.0% payable from operational fund	\$ 330,000
\$630,000 - municipal general obligation loan payable in semi-annual installments of \$85,000 to \$125,000, through July 1, 2004; with interest at 5.3% payable from debt service fund	<u>240,000</u>
Total notes payable	<u>\$ 570,000</u>

MUNICIPALITY OF COROZAL, PUERTO RICO

Annual debt service requirements to maturity for bonds and notes payable are as follows:

Year Ending June 30,	Principal	Interest
2004	\$ 185,000	\$ 198,193
2005	202,000	202,414
2006	84,000	193,739
2007	90,000	187,724
2008	97,000	140,242
There after	<u>2,620,000</u>	<u>1,929,639</u>
Total	\$ 3,278,000	\$2,851,951

Advances from- CRIM'- This amount represents the balance owed to CRIM at June 30, 2003 as described in Note 6, which will be repaid through a financing obtained by the CRIM with GDB, as authorized by law and as explained in this Note. As of June 30, 2003 the outstanding debt amounted to \$1,333,772.

Compensated absences – The government-wide statement of net assets includes \$1,036,183 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

U.S. Department of Agriculture - \$1,300,000 loan payable to Rural Development approved until November 17, 2007. Loan advances received amounted to \$1,052,23. The advances from governmental bank requires monthly payment of interest at 4.875%. A balance of \$244,413 of accrued interest payable is reported as of June 30, 2003.

NOTE 9. PENSION PLAN

The Employees' Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

Members who have attained 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.

MUNICIPALITY OF COROZAL, PUERTO RICO

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. No benefits are payable if the participant receives a refund of his /her accumulated contributions.

Commonwealth legislation requires employees to contribute 4.0% for the first \$500 of their monthly gross salary and 7.0% for the excess over \$500 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total contributions during the year ended June 30, 2003 amounted to \$244,283

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees) or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

NOTE 10. RISK MANAGEMENT

The Finance Department of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

MUNICIPALITY OF COROZAL, PUERTO RICO

NOTE 11. COMMITMENTS

- a. Operating Leases – The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2003, amounted to \$14,686. Management believes that the summary of the future minimum rental commitments under non cancelable real property and equipment lease with terms exceeding one year is not significant.
- b. Construction – The Municipality had commitments at June 30, 2003 the amount of \$1,280,000 for the construction of Bosque Urbano Project Phase II.

NOTE 12. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

NOTE 13. SUBSEQUENT EVENTS

No subsequent event is reported by the municipality.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were required to convert June 30, 2002 Financial Statements Fund Balances of the Municipality of Corozal to an estimated GASB-34 basis of accounting as of this date. Major effects were caused by unrecorded capital assets, unrecorded accumulated depreciation, fund balances reclassifications and write-offs, as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Unrecorded Capital Assets	\$ 7,620,493	\$5,500,000	\$13,120,493
Unrecorded Depreciation	(7,914,706)	(220,000)	(8,134,706)
Federal Funds reclassification of beginning balances	(492,332)		(492,332)
Write-off equipment under \$500	(379,865)		(379,865)
Other receivables write-off	(286,799)		(286,799)
Other items – net	<u>282,825</u>	<u> </u>	<u>282,825</u>
Total	(\$1,170,384)	\$5,280,000	\$ 4,109,616

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2003

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET Positive(Negative)
	<u>ORIGINAL</u>	<u>FINAL</u>		
RESOURCES (inflows):				
Property Taxes	\$ 1,536,681	\$ 1,536,681	\$ 1,536,681	\$ -
Volume of Business Taxes	900,000	912,081	955,059	42,978
Government of P.R. Contributions	4,275,329	4,269,424	4,269,424	-
Contributions in lieu of taxes	1,406,276	1,406,276	1,406,276	-
Construction Tax	200,000	275,041	277,835	2,794
Rent	85,000	110,563	118,635	8,072
Interest	120,000	152,574	163,216	10,642
Other	<u>357,500</u>	<u>235,142</u>	<u>250,369</u>	<u>15,227</u>
Amounts available for appropriations	<u>8,880,786</u>	<u>8,897,782</u>	<u>8,977,495</u>	<u>79,713</u>
CHARGES TO APPROPRIATIONS (out flows):				
Municipal Council	124,101	118,101	98,779	19,322
Mayor office	869,927	991,838	980,576	11,262
Finance	3,152,381	4,165,620	4,268,491	(102,871)
Public work	2,038,212	2,260,996	2,246,153	14,843
Health	410,025	410,025	410,025	-
Civil Defence	278,884	206,941	206,198	743
Municipal Police	166,317	174,534	170,903	3,631
Personnel	137,652	213,030	211,613	1,417
Sports and recreation	323,240	273,845	271,419	2,426
Sanitation	964,904	975,554	972,126	3,428
Elderly Centers	132,828	130,203	130,124	79
Internal Auditor	32,582	32,810	32,809	1
Purchases Department	37,877	43,554	41,579	1,975
Historical Turistic Center of Cibuco	211,856	100,731	94,380	6,351
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>8,880,786</u>	<u>10,097,782</u>	<u>10,135,175</u>	<u>(37,393)</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ (1,200,000)</u>	<u>\$ (1,157,680)</u>	<u>\$ 42,320</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND**

FOR THE YEAR ENDED JUNE 30, 2003

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET Positive(Negative)
	<u>ORIGINAL</u>	<u>FINAL</u>		
RESOURCES (inflows):				
Property Taxes	\$ 319,815	\$ 319,815	\$ 262,173	\$ (57,642)
Interest	-	-	12,179	12,179
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriations	<u>319,815</u>	<u>319,815</u>	<u>274,352</u>	<u>(45,463)</u>
CHARGES TO APPROPRIATIONS (out flows):				
Long term loan amortization	149,000	149,000	164,000	(15,000)
Interest on long term debt	115,751	115,751	82,670	33,081
Reserve / CAE liquidation 2001-02	55,064	55,064	29,558	25,506
Transfer of interest earned to General Fund	-	-	12,164	(12,164)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>319,815</u>	<u>319,815</u>	<u>288,392</u>	<u>31,423</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,040)</u>	<u>\$ (14,040)</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

MUNICIPALITY OF COROZAL, PUERTO RICO

**NOTES TO BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003.**

NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal -year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. . For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2003

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs:		
Housing Choise Voucher	14.156 MP	\$ 680,188
Indirect Program:		
Passed through P.R. Municipal Service Administration State Block Grant Program (SBGP)	14.228	<u>283,932</u>
Total US Department of Housing and Urban Development		<u>964,120</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through P.R. Municipal Service Administration Title III	93.045	<u>171,120</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through P.R. Municipal Service Administration Disaster Assistance Program	83.520	<u>39,597</u>
OTHER FINANCIAL ASSISTANCE		
Federal Agriculture	N/A	<u>31,456</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 1,206,293</u>

MP = Major Program

The accompanying notes are integral part of the financial statements.
See auditor's report.

MUNICIPALITY OF COROZAL, PUERTO RICO

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Corozal, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

NOTE 2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund.

NOTE 3. FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

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CERTIFIED PUBLIC ACCOUNTANT

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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 Corozal
Corozal, Puerto Rico

I have audited the financial statements of the Municipality of Corozal 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 Corozal 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 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 tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items section III.

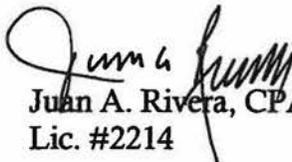
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Municipality of Corozal internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Municipality of Corozal ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs in section III.

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 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, I believe that none of the reportable conditions described above is a 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. 1931644 Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

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 A ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

I have audited the compliance of Municipality of Corozal 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 Corozal 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 Corozal management. My responsibility is to express an opinion on the Municipality of Corozal 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 Corozal 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 Corozal compliance with those requirements.

As described in section III in the accompanying schedule of findings and questioned costs, the Municipality of Corozal did not comply with requirements regarding to its Section 8 Program Management. Compliance with such requirements is necessary, in my opinion, for the Municipality of Corozal to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Corozal 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.

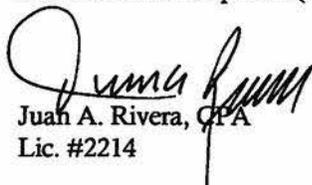
Internal Control Over Compliance

The management of the Municipality of Corozal 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 Corozal 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.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention 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 Corozal ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs section III.

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.

However, I believe that none of the reportable conditions described above is a 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. 1931645 Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COROZAL, PUERTO RICO

Section II Schedule of financial statements findings and questioned costs, June 30, 2003

Internal Control Findings:

My examination of Internal Control with requirements of the Municipality of Corozal, for the year ended June 30, 2003 disclosed that grants funds were generally administered in a satisfactory manner.

1. I noted the persistence of prior year audit findings. I recommend prompt correction action to attend prior audit findings. (see prior year finding status)

Auditee response:

The finance director is working in the correction action plan. It should be noted that correction actions were taken on various situations.

MUNICIPALITY OF COROZAL, PUERTO RICO

Section III Federal Awards Findings and Questioned Costs

Compliance findings:

My examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2003 disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

1. Housing Choice Voucher Program

Documents and information required in the Municipality Administrative Plan (voucher program) were not maintained as mentioned as follows:

a. Finding # 1 - Waiting List

Several versions of a waiting list developed for different purposes were found to be incomplete and unacceptable. Due to PHA's failure to maintain a waiting list in accordance with HUD regulations and FHEO requirements in a condition that is easily auditable, proper tenant selection is questionable.

Recommendation:

The preparation and organization of the waiting list should follow the parameters established in the Administrative Plan as required by HUD regulations. To clear this finding the section 8 voucher program administration need to revised waiting list format supported with evidence of PHA actions in process to purge/update old listings and a copy of the policy regarding notification of changes in applicant status and procedures for purging the waiting list. This policy should be in accordance with Administrative Plan.

Reference:

Refer to 24 CFR §982.204 and chapters 3.2 and 4 of the Housing Choice Voucher Program Guidebook 7420.10 G that was mentioned to your staff during the audit.

Auditee Response:

The Municipality management accept the recommendation and expect correct this finding before year end.

b. Finding #2 - Information Packet

From the documentation provided and the review of sampled files, we were unable to determine that the families were provided with the required full orientation and a complete Information Packet.

MUNICIPALITY OF COROZAL, PUERTO RICO

Recommendation:

The PHA must give an oral briefing, supported by written information to each participating family. The Municipality Program Administration must develop and information packet including all the items identified in the regulation. An acknowledgement receipt will be kept in each tenant file.

Reference:

See 24 CFR 982.301 (a) (b) and chapter 8-5 of the Housing Choice Voucher Program Guidebook 7420.10G that was mentioned to your staff during the review.

Auditee Response:

The auditee accept the recommendation and expect correct this finding for first quarter of 2004.

c. Finding #3 – HUD Form 50058, Family Report

The electronic submission of this Form to HUD has consistently been under the minimum acceptable reporting rate of 85%. It appears that your staff has been confronting problems in successfully transmitting date entered in the computer without taking assertive action to correct the problem. Be aware that PHA performance on five of the SEMAP indicators is verified by data provided through the Multifamily Tenant Characteristics System (MTCS). The regulations establish that PHA's that fail to achieve the minimum reporting rate are subject to sanctions.

Recommendation:

PHA needs to train and support the person in charge of occupancy and make sure that he/she is trained and familiar with the MTCS (500058). This person should transmit the report. Any problems associated with the transmission should be reported immediately and followed up until corrected to guarantee the successful submission of the report.

References:

Guidance on the implementation of this rule was provided to Housing Authorities in HUD Notice (PIH) 95-38 and (PIH) 96-20 accessible in www.hudclips.org. Also refer to Chapter 19 of the Program Guidebook mentioned to your staff during the audit.

MUNICIPALITY OF COROZAL, PUERTO RICO

c. Finding #3 – HUD Form 50058, Family Report

Auditee Response:

The program management accept the finding and the transmission started in September 2003.

d. Finding # 4 – HQS Quality Control Inspections

No Quality Control inspections were performed.

Recommendation:

The PHA must conduct supervisory quality control HQS inspections. A PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year.

Reference:

See Part 982.405 (b) PHA initial and periodic unit inspection and Chapter 10 of the Housing Choice Voucher Program Guidebook 7420.10G that was mentioned to your staff during the review.

Auditee Response:

The auditee accept the recomendation and instruction were given to correct this situation.

e. Finding # 5 – Rent Reasonableness

The Rent Reasonableness Certifications are not being made.

Recommendation :

The PHA must make a thorough comprehensive study of the rent market in its jurisdiction and maintain relevant documentation with respect to the determination of rent reasonableness on each case. Certificate of rent reasonableness must be prepared and included in each case binder and/or tenant file.

Reference:

See 24CFR 982.4, 982.54 (d) (15), 982.158 (f) (7), 982.507 and Chapter 9 of the Housing Choice Voucher Program Guidebook.

MUNICIPALITY OF COROZAL, PUERTO RICO

e. Finding # 5 – Rent Reasonableness

Auditee Response:

The auditee accept the recomendation and instruction was given to the plan coordinator to implement the procedure.

f. Finding # 6 – Availability of the Administrative Plan

The Availability Plan is not available for the public in the Management Office.

Recommendation:

The PHA must post or otherwise make available the Administrative Plan for public reference.

Reference:

Refer to 24 CFR § 110.15, Voucher Program Guidebook 7420.10G, Chapter 3.2.

Auditee Response:

The auditee accept the recommendation.

g. Finding # 7 – Expanding Housing Opportunities

The PHA has not implemented the necessary actions to encourage participation by owners of units located outside pockets of poverty concentration.

Recommendation:

The PHA must implement the existing de-concentration policy with specific actions to encourage participation by owners of units located outside pockets of poverty.

Reference:

Refer to 24 CFR § 982.54 (d) (5) and Voucher Program Guidebook 7420.10G, chapter 2-2 and 2-3.

Auditee Response:

The auditee accept the recommendation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

REPORTABLE CONDITIONS

- 1. ACCOUNTING SYSTEM 2002-01** still prevail

I noted that the Municipality of Corozal I not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transactions in the general, capital project and special funds. These funds aare kept under the cash basis method. Also, th system used to record the purchased orders and contracts are not adequate; because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements. We realized several adjusting entrie to convert them to a modified accrual basis of accounting.

- 2. FIXED ASSETS 2002-2**

Physical inventory and depreciated Municipality property to comply with GASB 34

Corrected

- 3. ACCOUNTING RECORDS 2002.3**

During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following :

- a. I observe that the accounting records and the information provided be the Municipality contains material errors which I conclude there are transactions realized during the fiscal year 2001-2002 and that were not recorded on the accounting books of the Municipality.
- b. Significant adjustment had to be made during the audit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

3. ACCOUNTING RECORDS 2002.3- CONT

- c. The Municipality maintains several cash accounts which are inactive or have limited activity.

4. THE MUNICIPALITY HAS NOT MAINTAIN SEPARATE BANK ACCOUNT FOR THE RESOURCES OF CAPITAL PROJECT BY LEGISLATIVE GRANTS – 2002-4 corrected

5. PURCHASE AND RECEIVING 2002-5 corrected

Condition:

My review of twenty (20) disbursements for Municipal Funds and twenty (20) for federal funds revealed non – compliance with applicable requirements. My review of the supporting document revealed that documents were missing or incomplete.

REPORTABLE CONDITION FEDERAL PROGRAMS

**SECTION 8
EXISTING
COSTS/COMMENTS – 2002-05**

- 1. Condition: The Municipality has not established effective cash management procedures.

corrected

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

<u>Findings</u>	<u>Questioned Cost</u>	<u>Actual status</u>
<p>2001-1. ACCOUNTING SYSTEM</p> <p>I noted that the Municipality of Corozal is not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transaction in the general, capital project, and special fund. These funds are kept under the cash basis method. Also, the system used to record the purchased orders and contract are not adequate; because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statement, we realized several adjusting entries to convert them to a modified accrual basis of accounting</p>	N/A	condition still prevail
<p>2001-2. FIXED ASSETS</p> <p>During the audit I noted that:</p> <p>a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.</p> <p>b. There is no supervision process</p>	N/A	corrected

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

<u>Findings</u>	<u>Questioned Cost</u>	<u>Actual status</u>
2001-2. FIXED ASSETS CONT		
established in order to verify if each department keeps adequate control of the property that is under their responsibility.		
c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.		
d. The is no supervision process to verify if each department keeps adequate control of the inventory.		

2001-3. ACCOUNTING RECORDS	corrected
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During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following:

- a. I observed that the accounting records and the information provided by the Municipality contains material errors which I conclude there are transactions realized during the fiscal year 2001-2002

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
JUNE 30, 2003**

<u>Findings</u>	<u>Questioned Cost</u>	<u>Actual status</u>
2001-3. ACCOUNTING RECORDS CONT		
and that were not recorded on the accounting books of the Municipality.		
b. Significant adjustments had to be made during the audit.		
c. The Municipality maintains several cash accounts which are either inactive or have limited activity.		
2001-4 THE MUNICIPALITY HAS NOT MAINTAIN SEPARATE BANK ACCOUNT FOR THE RESOURCE OF CAPITAL PROJECT BY LEGISLATIVE GRANTS		corrected