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AREA DE ARCHIVO DIGITAL

MUNICIPIO DE COROZAL

AUDITORIA 2003-2004

30 DE JUNIO DE 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL

Independent Auditors' Report

Financial Statements and
Supplemental Schedules

Year Ended June 30, 2004

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the Municipal Legislature
Municipality of Corozal
Corozal, Puerto Rico

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, 2004, 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 our audit

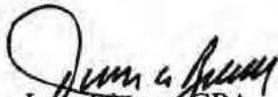
I conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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, business type 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, 2004, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, I have also issued my report dated November 22, 2004 on my consideration of the Government's internal control over financial reporting and my tests of its compliance with certain provisions of law, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general purposes financial statement taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non – Profit Organizations, and is not required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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


Juan Rivera, CPA
License 2214



November 22, 2004
Toa Baja, Puerto Rico

Stamp No. 2010595 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT 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, 2004. 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"). 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 total Activities net assets increased by \$9,972,202, including a prior period adjustment for capitalization of infrastructure land of \$9,211,720 and excess revenues over expenditures of \$1,130,312.

The Municipality Business Type Activities net assets decreased by \$701,903 due to depreciation charges of \$159,097 and a prior period adjustment for overstatement of land valuation of \$542,806.

In the fund financial statements, the governmental activities revenue increased \$1,643,309 (or 14.9%) while governmental activities expenditures decreased \$149,232 (or 1.2%).

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, an increase of \$1,133,488.

On a budgetary basis, actual revenues exceeded actual expenditures by \$696,229.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected a decrease of \$685,974.

Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, amounted to \$1,496,425.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

During current year no long term debt was issued by the Municipality, although after June 30, 2004 bonds amounting to \$1,995,000 were issued 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

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 \$23,772,970 at the end of current year, compared to \$13,098,865 at the end of the previous- year; this increase of \$10,674,105 includes a prior period adjustment for capitalization of infrastructure land of \$9,211,720 and excess revenues over expenditures of \$1,130,312. The combined net assets of the proprietary business type activities totaled \$5,728,710 at the end of current year, compared to \$6,430,613 at the end of the previous- year; this decrease of \$701,903 was due to depreciation charges of \$159,097 and a prior period adjustment for overstatement of land valuation of \$542,806.

The largest portion of the Municipality's net assets is the investment in capital assets such as land, buildings, improvements, vehicles, equipment, infrastructure, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

**Condensed Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 8,271,955	\$ 8,135,847	\$ 2,950	\$ 2,626
Capital assets	23,393,046	13,973,778	5,728,710	6,430,613
Other assets	<u>1,346,843</u>	<u>1,237,563</u>	-	-
Total assets	<u>34,011,484</u>	<u>23,347,188</u>	<u>5,731,660</u>	<u>6,433,239</u>
Current liabilities	3,798,107	4,001,131	2,950	2,626
Noncurrent liabilities	<u>6,440,407</u>	<u>6,247,192</u>	-	-
Total liabilities	<u>10,238,514</u>	<u>10,248,323</u>	<u>2,950</u>	<u>2,626</u>
Invested in capital assets, net of related debt	20,141,929	9,643,541	5,728,710	6,430,613
Unrestricted – (deficit)	(1,518,472)	(2,016,267)	-	-
Restricted	<u>5,149,513</u>	<u>5,471,591</u>	-	-
Total net assets	<u>\$ 23,772,970</u>	<u>\$ 13,098,865</u>	<u>\$ 5,728,710</u>	<u>\$ 6,430,613</u>

Changes in Net Assets

The Municipality's governmental activities net assets increases by \$10,674,105; including a prior period adjustment for capitalization of infrastructure land of \$9,211,720 and \$1,130,312 excess revenues over expenditures. Approximately 25.4 percent of the Municipality's revenue came from taxes, while 61.9 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 12.7 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 \$701,903 due to depreciation charges of \$159,097 and a prior period adjustment for overstatement of land valuation of \$542,806. Total revenue of the business type activity came from fees and Municipality contributions. The largest expenses were for depreciation, and operations.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

**Condensed Statement of Activities
June 30, 2004**

GOVERNMENTAL ACTIVITIES:

	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services	\$ 995,386	\$ 552,459
Operating grants and contributions	2,080,580	1,904,711
General revenues:		
Property taxes	2,326,028	1,798,854
Municipal license tax	898,250	955,059
Interest and investment earnings	113,511	175,395
Grants and contributions not restricted	<u>6,291,332</u>	<u>5,675,700</u>
Total revenues	<u>12,705,487</u>	<u>11,062,178</u>
Expenses:		
General and administration	4,377,821	4,824,730
Health	444,039	410,025
Housing	622,051	680,188
Public Safety	516,192	384,949
Sport and recreation	313,935	269,319
Sanitation	992,428	272,449
Elderly Centers	250,258	301,244
Interest on long-term debt	378,989	99,545
Depreciation	1,003,012	776,856
Public works	<u>2,676,450</u>	<u>2,858,152</u>
Total Expenses	<u>11,575,175</u>	<u>11,577,457</u>
Excess revenues over expenses	<u>\$ 1,130,312</u>	<u>\$ (515,279)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

BUSINESS TYPE ACTIVITIES:

	<u>2004</u>	<u>2003</u>
Revenues:		
Grants and contributions	\$ 103,669	\$ 94,380
Fees	<u>50,511</u>	<u> -</u>
Total revenues	<u>154,180</u>	<u>94,380</u>
Expenses:		
Operating and maintenance	154,180	94,380
Depreciation	<u>159,097</u>	<u>147,036</u>
Total expenses	<u>313,277</u>	<u>241,416</u>
Excess revenues over expenses	<u>\$ (159,097)</u>	<u>\$ (147,036)</u>

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 \$6,054,421 an increase of \$429,142 in comparison with the prior year. There are reservations of fund balance amounting to \$5,149,513. This is the fund balance that it is not available for new spending because it has already been committed for the following purposes: 1) to liquidate contracts and purchase orders of the prior fiscal year (\$309,821), 2) to pay debt service (\$1,485,772), 3) to pay for capital projects (\$2,614,425) or 4) for other purposes (\$739,495). Accordingly, the unreserved fund balance amounts to \$904,908 in the governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a balance of \$1,428,807. The fund balance of the general fund increased by \$1,033,182. Key factors in the increase of the fund balance are as follows:

• Increase in total revenues	\$ 1,303,368
• Operating transfer to other governmental fund	(100,306)
• Other items net	(169,880)

Increase of \$1,303,368 in total revenues was mainly due to increases of \$361,232 in Property Taxes, \$118,321 in Construction Taxes, \$500,000 from prior years surplus and a net increase of \$323,815 in all other revenue items.

The operating transfer to the other governmental funds of \$100,306 was mainly directed to the improvement of infrastructure.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected a decrease of \$665,515. No major changes were reported for the Joint Resolutions Fund, the Debt Service Fund, nor Other Governmental Funds.

Business-type Activities

Revenues of the Municipality's business-type activities reported \$154,180 while expenses amounted to \$313,277, including a charge for depreciation of \$159,097.

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.

The most significant variance between budget and actual results was an increase in Property Taxes of \$368,287. In summary the general fund actual revenues exceeded budget by \$498,543 and actual expenditures were under budget by \$197,686, for a net favorable variance of \$696,229.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets, including business type activities, as of June 30, 2004, amounts to \$41,000,180, with accumulated depreciation of \$10,878,424, leaving a net book value of \$30,121,756. 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 \$1,496,425 for the year. Depreciation charges for the year totaled \$1,162,109, of which \$1,003,012 are related to governmental activities and \$159,097 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, 2004 the Municipality has \$2,073,644 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").

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

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, 2004 the Municipality did not issued long term debt. As of June 30, 2004 the Municipality Long Term Debt is composed as follows:

Bonds payable	\$2,653,000
Notes payable	440,000
Loan P.R. Treasury Department	71,615
Advances from CRIM	1,123,153
Loan US Department of Agriculture	<u>1,158,117</u>
	<u>\$5,445,885</u>

Other long term obligations consist of \$1,228,612 of accrued compensated absences such as vacations and sick leave.

As of June 30, 2004 the Municipality redemption fund (debt service) has a balance of \$1,271,694, 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 2004-2005 fiscal year.

No significant change were presented between the budget for fiscal year 2003-2004 and the one for fiscal year 2004-2005. In summary all revenues and expenditures for the general fund were budgeted in \$9,453,043 which represents a net decrease of \$295,955 or 3.0%; for the debt service fund all revenues and expenditures were budgeted in \$487,575 which represents a net increase of \$61,724 or 14.5%. The increase in the debts service fund provides for the amortization of principal and interest of long term debt issued in previous and subsequent years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
MANAGEMENT DISCUSSION AND ANALYSIS**

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	2004 TOTAL	2003 TOTAL
ASSETS				
Current Assets:				
Cash	\$1,367,848	\$ -	\$1,367,848	\$ 1,516,481
Cash held with fiscal agent	2,073,644		2,073,644	2,511,536
Investment	3,340,371		3,340,371	2,634,774
Accounts receivable:				
Volume of Business Tax	4,227		4,227	45,796
Other	-	2,950	2,950	23,610
Due from other governments	1,485,865	-	1,485,865	1,406,276
Total current assets	<u>8,271,955</u>	<u>2,950</u>	<u>8,274,905</u>	<u>8,138,473</u>
Noncurrent Assets:				
Cash held with fiscal agent	1,346,483		1,346,483	1,237,563
Capital Assets (net of depreciation)	24,393,046	5,728,710	30,121,756	20,404,391
Total noncurrent assets	<u>25,739,529</u>	<u>5,728,710</u>	<u>31,468,239</u>	<u>21,641,954</u>
TOTAL ASSETS	<u>34,011,484</u>	<u>5,731,660</u>	<u>39,743,144</u>	<u>29,780,427</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	666,825	2,950	669,775	810,801
Due to other governmental units	1,363,348		1,363,348	1,373,423
Deferred Revenues	1,162,554		1,162,554	1,322,120
Accrued interest on Loans	371,290		371,290	244,413
Current portion of long term debt	234,090	-	234,090	253,000
Total current liabilities	<u>3,798,107</u>	<u>2,950</u>	<u>3,801,057</u>	<u>4,003,757</u>
Noncurrent Liabilities:				
Advances from CRIM	1,123,153		1,123,153	1,133,772
Loan PR Treasury Department	71,615		71,615	N/A
Bonds Payable	2,653,000		2,653,000	2,708,000
Notes payable	440,000		440,000	570,000
Accrued compensated absences	1,228,612		1,228,612	1,036,183
Advances US Department of Agriculture	1,158,117	-	1,158,117	1,052,237
	6,674,497	-	6,674,497	6,500,192
Less: Reported as current portion	<u>(234,090)</u>	<u>-</u>	<u>(234,090)</u>	<u>(253,000)</u>
Total noncurrent liabilities	<u>6,440,407</u>	<u>-</u>	<u>6,440,407</u>	<u>6,247,192</u>
TOTAL LIABILITIES	<u>10,238,514</u>	<u>2,950</u>	<u>10,241,464</u>	<u>10,250,949</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	20,141,929	5,728,710	25,870,639	16,074,154
Restricted for Capital Projects	2,614,425		2,614,425	3,279,940
Restricted for Debt Service	1,485,772		1,485,772	1,237,563
Restricted for Other Purposes	739,495		739,495	712,151
Reserve for Encumbrances	309,821		309,821	366,937
Unrestricted	<u>(1,518,472)</u>	<u>-</u>	<u>(1,518,472)</u>	<u>(2,141,267)</u>
TOTAL NET ASSETS	<u>23,772,970</u>	<u>5,728,710</u>	<u>29,501,680</u>	<u>19,529,478</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,011,484</u>	<u>\$ 5,731,660</u>	<u>\$ 39,743,144</u>	<u>\$ 29,780,427</u>

The accompanying notes are integral part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	2004 TOTAL	2003 TOTAL
GOVERNMENTAL ACTIVITIES:								
General Administration	4,377,821	\$ 599,230	\$ 118,191	\$ -	\$ (3,660,400)		\$ (3,660,400)	\$ (4,550,106)
Public work	2,676,450	396,156	582,786	624,881	(1,072,627)		(1,072,627)	(1,355,794)
Health	444,039				(444,039)		(444,039)	(410,025)
Civil Defence	219,533				(219,533)		(219,533)	(214,046)
Municipal Police	296,659		94,024		(202,635)		(202,635)	(170,903)
Sports and recreation	313,935				(313,935)		(313,935)	(269,319)
Sanitation	992,428				(992,428)		(992,428)	(972,449)
Elderly Centers	250,258		227,101		(23,157)		(23,157)	(301,244)
Housing	622,051		433,597		(188,454)		(188,454)	-
Interest on Long Term Debt	378,989				(378,989)		(378,989)	(99,545)
Depreciation	1,003,012	-	-	-	(1,003,012)		(1,003,012)	(776,856)
Total governmental activities	<u>11,575,175</u>	<u>995,386</u>	<u>1,455,699</u>	<u>624,881</u>	<u>(8,499,209)</u>		<u>(8,499,209)</u>	<u>(9,120,287)</u>
BUSINESS TYPE ACTIVITIES:								
Operations	154,180	50,511	103,669			-	-	-
Depreciation	159,097	-	-	-		(159,097)	(159,097)	(147,036)
Total business type activities	<u>313,277</u>	<u>50,511</u>	<u>103,669</u>	<u>-</u>		<u>(159,097)</u>	<u>(159,097)</u>	<u>(147,036)</u>
TOTAL ACTIVITIES	\$ 11,888,452	\$ 1,045,897	\$ 1,559,368	\$ 624,881			(8,658,306)	(9,267,323)
GENERAL REVENUES:								
Property taxes, levied for general purposes					1,897,913		1,897,913	1,536,681
Property taxes, levied for debt services					428,115		428,115	262,173
Volume of business taxes					898,650		898,650	955,059
Government of P.R. Contributions					4,305,467		4,305,467	4,269,424
Contributions in lieu of taxes					1,485,865		1,485,865	1,406,276
Prior years surplus					500,000			
Interest					113,511		113,511	175,395
TOTAL GENERAL REVENUES					<u>9,629,521</u>		<u>9,629,521</u>	<u>8,605,008</u>
CHANGES IN NET ASSETS					1,130,312	(159,097)	971,215	(662,315)
Prior year adjustments					9,543,793	(542,806)	9,000,987	4,109,616
Net assets - beginning of year					13,098,865	6,430,613	19,529,478	16,082,177
Net assets - ending of year					<u>\$ 23,772,970</u>	<u>\$ 5,728,710</u>	<u>\$29,501,680</u>	<u>\$19,529,478</u>

The accompanying notes are integral part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

ASSETS	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2004 TOTAL GOVERNMENTAL FUNDS	2003 TOTAL GOVERNMENTAL FUNDS
Cash	\$711,987	\$20,161	\$ 4,883	\$ -	\$630,817	\$1,367,848	\$1,516,481
Cash held with fiscal agent	-		2,073,644	1,346,483		3,420,127	3,749,099
Investment	3,340,371					3,340,371	2,634,774
Accounts receivable:						-	-
Volume of Business Tax	4,227					4,227	45,796
Other	-					-	20,984
Due from other governments	1,485,865					1,485,865	1,406,276
Due from other funds		349,515	832,399		359,648	1,541,562	2,063,994
Inventories	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 5,542,450</u>	<u>\$ 369,676</u>	<u>\$ 2,910,926</u>	<u>\$ 1,346,483</u>	<u>\$ 990,465</u>	<u>\$ 11,160,000</u>	<u>\$ 11,437,404</u>

The accompanying notes are integral part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
BALANCE SHEET (Continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2004 TOTAL GOVERNMENTAL FUNDS	2003 TOTAL GOVERNMENTAL FUNDS
LIABILITIES							
Accounts payable	\$ 666,825	\$ -	\$ -	\$ -	\$ -	\$ 666,825	\$ 808,175
Due to other governmental units	1,363,348					1,363,348	1,373,423
Deferred Revenues	541,908				620,646	1,162,554	1,322,120
Accued interest on Loans			296,501	74,789		371,290	244,413
Due to other funds	1,541,562	-	-	-	-	1,541,562	2,063,994
TOTAL LIABILITIES	<u>4,113,643</u>	<u>-</u>	<u>296,501</u>	<u>74,789</u>	<u>620,646</u>	<u>5,105,579</u>	<u>5,812,125</u>
FUND BALANCES							
Reserved for:							
Inventories						-	-
Capital Projects			2,614,425			2,614,425	3,279,940
Debt Service	214,078			1,271,694		1,485,772	1,237,563
Other Purposes		369,676			369,819	739,495	712,151
Encumbrances	309,821					309,821	366,937
Unreserved	904,908	-	-	-	-	904,908	28,688
TOTAL FUND BALANCES	<u>1,428,807</u>	<u>369,676</u>	<u>2,614,425</u>	<u>1,271,694</u>	<u>369,819</u>	<u>6,054,421</u>	<u>5,625,279</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,542,450</u>	<u>\$ 369,676</u>	<u>\$ 2,910,926</u>	<u>\$ 1,346,483</u>	<u>\$ 990,465</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

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds

	24,393,046	13,973,778
	<u>(6,674,497)</u>	<u>(6,500,192)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES

	<u>\$ 23,772,970</u>	<u>\$ 13,098,865</u>
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The accompanying notes are integral part of the financial statements.

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

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2004 TOTAL GOVERNMENTAL FUNDS	2003 TOTAL GOVERNMENTAL FUNDS
REVENUES:							
Property taxes	\$ 1,897,913	\$ -	\$ -	\$ 428,115	\$ -	\$ 2,326,028	\$ 1,798,854
Volume of Business Taxes	898,650					898,650	955,059
Government of P.R. Contributions	4,305,467					4,305,467	4,269,424
Contributions in lieu of taxes	1,485,865					1,485,865	1,406,276
Grants and contributions	-	104,905	73,942		1,901,733	2,080,580	1,904,711
Charges for services	396,156					396,156	277,835
Rent	126,672					126,672	118,635
Interest	103,202			10,309		113,511	175,395
Miscellaneous	972,558					972,558	155,989
TOTAL REVENUES	10,186,483	104,905	73,942	438,424	1,901,733	12,705,487	11,062,178
EXPENDITURES:							
General Administration	4,259,630				118,191	4,377,821	4,824,730
Public work	2,205,205	123,390			347,855	2,676,450	2,858,152
Health	444,039					444,039	410,025
Civil Defence	204,533				15,000	219,533	214,046
Municipal Police	183,352				113,307	296,659	170,903
Sports and recreation	313,935					313,935	269,319
Sanitation	992,428					992,428	972,449
Elderly Centers	117,976				132,282	250,258	301,244
Housing					622,051	622,051	680,188
CAE liquidation 2001-02							29,558
Capital Outlay	190,984		707,828		597,613	1,496,425	1,117,954
Principal Retirement on Long Term Debt	37,757			170,000		207,757	179,000
Interest on Long Term Debt	103,156		52,088	223,745		378,989	99,545
TOTAL EXPENDITURES	9,052,995	123,390	759,916	393,745	1,946,299	12,276,345	12,127,113
EXCESS REVENUES OVER EXPENDITURES	1,133,488	(18,485)	(685,974)	44,679	(44,566)	429,142	(1,064,935)

The accompanying notes are integral part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2004 TOTAL GOVERNMENTAL FUNDS</u>	<u>2003 TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES):							
Capital related debt issued	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,320,000
Transfers	(100,306)	(20,056)	20,459	(10,548)	110,451	-	-
TOTAL OTHER FINANCING SOURCES	<u>(100,306)</u>	<u>(20,056)</u>	<u>20,459</u>	<u>(10,548)</u>	<u>110,451</u>	<u>-</u>	<u>1,320,000</u>
NET CHANGES IN FUND BALANCES	1,033,182	(38,541)	(665,515)	34,131	65,885	429,142	255,065
Prior year adjustments						-	(900,446)
FUND BALANCES, BEGINNING 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>	<u>6,270,660</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,428,807</u>	<u>\$ 369,676</u>	<u>\$ 2,614,425</u>	<u>\$ 1,271,694</u>	<u>\$ 369,819</u>	<u>\$ 6,054,421</u>	<u>\$ 5,625,279</u>

The accompanying notes are integral part of the financial statements.

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

	<u>2004</u>	<u>2003</u>
Net changes in fund balances - total governmental funds	\$ 429,142	\$ 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 (\$1,496,425) exceed depreciation expense (\$1,003,012) in the current period.	493,413	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 repayments (\$207,757) exceeded proceeds (\$ -0-).	<u>207,757</u>	<u>(1,141,000)</u>
Changes in net assets of governmental activities	<u>\$ 1,130,312</u>	<u>\$ (515,279)</u>

The accompanying notes are integral part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)
FOR THE YEAR ENDED JUNE 30,**

	<u>2004</u>	<u>2003</u>
ASSETS		
Current Assets:		
Petty cash	\$ -	\$ -
Cash in Bank	-	-
	<hr/>	<hr/>
	-	-
Accounts receivable:		
Other	2,950	2,626
Allowance for bad debts	-	-
	<hr/>	<hr/>
	2,950	2,626
Total current assets	2,950	2,626
Fixed Assets:		
Land	444,367	987,173
Buildings and improvements	5,500,000	5,500,000
Equipment, furniture and fixtures	261,650	261,650
Other	117,180	117,180
	<hr/>	<hr/>
	6,323,197	6,866,003
Accumulated depreciation	(594,487)	(435,390)
Total fixed assets	5,728,710	6,430,613
Other assets:		
	<hr/>	<hr/>
	-	-
Total assets	<u>\$ 5,731,660</u>	<u>\$ 6,433,239</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - trade	\$ 2,950	\$ 2,626
Other	-	-
	<hr/>	<hr/>
Total current liabilities	2,950	2,626
Net assets:		
Net investment in fixed assets	5,728,710	6,430,613
Unrestricted	-	-
	<hr/>	<hr/>
Net assets	5,728,710	6,430,613
Total liabilities and net assets	<u>\$ 5,731,660</u>	<u>\$ 6,433,239</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
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,**

	<u>2004</u>	<u>2003</u>
REVENUES:		
Admission fee	\$ 37,011	\$ -
Rental fee	13,500	-
Other income - municipal participation	103,669	94,380
Total revenues	<u>154,180</u>	<u>94,380</u>
EXPENSES:		
Operating and maintenance	154,180	94,380
Depreciation	159,097	147,036
Other	-	-
COST OF OPERATIONS	<u>313,277</u>	<u>241,416</u>
EXCESS COSTS OVER REVENUES	(159,097)	(147,036)
OTHER LOSS	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(159,097)	(147,036)
Prior Period Adjustments	(542,806)	5,280,000
BEGINNING NET ASSETS	<u>6,430,613</u>	<u>1,297,649</u>
ENDING NET ASSETS	<u>\$ 5,728,710</u>	<u>\$ 6,430,613</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

**HISTORIC AND TOURIST CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)
FOR THE YEAR ENDED JUNE 30,**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (159,097)	\$ (147,036)
Depreciation expenses	159,097	147,036
(Increase) Decrease in accounts receivable -	324	1,190
Increase (Decrease) in accounts payable - trade	(324)	(1,190)
Other items	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>-</u>	<u>-</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in other equipment	<u>-</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>-</u>	<u>-</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in mortgage payable	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	-	-
CASH AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>
CASH AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Corozal of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1795 with full legislative, fiscal and administrative powers to operate as a government.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature (fourteen members), which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative duties.

A. New Financial Reporting Model and Component Units

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below on July 1, 2002. These statements require the reporting of new financial information and restructure much of the information that governments have reported in the past. Comparability with financial statements issued prior to June 30, 2003 has been affected significantly.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

**COMMONWEAL OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

The RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the management discussion and analysis (MD&A).

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2004, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*, (2) GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, (3) GASB Statement No. 38 – *Certain Financial Statement Note Disclosures* and (4) GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB No. 34 also requires that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – *Accounting Changes*, (2) APB Opinion No. 21 – *Interest on Receivables and Payables*, (3) FASB Statement No. 5 – *Accounting for Contingencies* and (4) FASB Statement No. 16 – *Prior Period Adjustments*. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

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

COMMONWEAL OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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.

B. Government-wide and fund financial statements

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

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

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.

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

COMMONWEAL OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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.

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

Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.

Notes to the budgetary comparison schedule – general fund.

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.

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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 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.

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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".

As of June 30, 2004 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$1,241,066
PR Telephone Company	55,690
PR Sewer and Sanitary Authority	9,306
PR General Services Administration	4,777
PR Retirement System	48,629
PR Treasury Department	3,880
	<u>\$1,363,348</u>

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.

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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:

<u>Description</u>	<u>Years</u>
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.

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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.

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

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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, 2004 amounted to \$191,068. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$177,413 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.

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 \$711,987 in the general fund were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of \$20,161, \$4,883 and \$630,817 respectively, that were fully collateralized.

The deposits at GDB of \$2,073,644 restricted principally for capital projects, and the \$1,346,483 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental bank.

Investments represents certificate of deposits in the following institutions:

Banco Popular de P.R. (No. 11100018-23)	\$2,700,000
Government Development Bank of P.R. (No. 25)	<u>640,371</u>
Total	<u>\$3,340,371</u>

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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, 2004, 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, 2004, 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.

C. Other – Other accounts receivable as of June 30, 2004 are as follows:

	General Fund	Other Governmental Funds	Component Unit
Rent	\$ -	\$ -	\$ -
Other	<u>-</u>	<u>-</u>	<u>2,950</u>
Total other receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,950</u>

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NOTE 4. INTER FUND TRANSACTIONS

Inter fund – receivables and payables at June 30, 2004 are summarized as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ -	\$ 1,541,562
Other Governmental	359,648	
Joint Resolutions	349,515	
Capital Project	<u>832,399</u>	<u>-</u>
 Total	 <u>\$ 1,541,562</u>	 <u>\$ 1,541,562</u>

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 current year, 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:

	<u>Balance June 2003</u>	<u>Additions (Retirements)</u>	<u>Balance June 2004</u>
Governmental Activities:			
Capital asset, not being depreciated:			
Land	\$1,309,005	\$9,211,720	\$10,520,725
Construction in progress	<u>455,299</u>	<u>97,660</u>	<u>552,959</u>
Total capital assets not being depreciated	<u>1,764,304</u>	<u>9,309,380</u>	<u>11,073,684</u>
Capital assets, being depreciated:			
Buildings and building improvements	12,753,637		12,753,637
Site improvements	893,742		893,742
Infrastructure	1,527,686	2,379,599	3,907,285
Equipment	818,412	26,172	840,584
Vehicles	<u>4,843,205</u>	<u>364,846</u>	<u>5,208,051</u>
Total capital assets being depreciated	<u>20,832,682</u>	<u>2,770,617</u>	<u>23,603,299</u>
Less accumulated depreciation for:			
Buildings and building improvements	3,496,945	253,663	3,750,608
Site improvements	655,445	24,304	679,749
Infrastructure	205,998	1,048,445	1,254,443
Equipment	659,293	47,016	706,309
Vehicles	<u>3,605,527</u>	<u>287,301</u>	<u>3,892,828</u>
Total accumulated depreciation	<u>8,623,527</u>	<u>1,660,729</u>	<u>10,293,937</u>
 Total capital assets being depreciated, net	 <u>12,209,474</u>		 <u>13,319,362</u>
 Governmental activities capital assets, net	 <u>\$13,973,778</u>	 <u>\$10,419,268</u>	 <u>\$24,393,046</u>

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Business Type Activity:

Capital asset, not being depreciated:			
Land	<u>\$987,173</u>	<u>\$(542,806)</u>	<u>\$444,367</u>
Capital assets, being depreciated:			
Building and building improvement	5,500,000		5,500,000
Equipment	261,650		261,650
Vehicles	<u>117,180</u>		<u>117,180</u>
Total capital assets being depreciated	<u>5,878,830</u>		<u>5,878,830</u>
Less accumulated depreciation for:			
Building and building improvement	330,000	110,000	440,000
Equipment		11,718	11,718
Vehicles	105,390	37,379	142,769
Total accumulated depreciation	<u>435,390</u>	<u>159,097</u>	<u>594,487</u>
 Total capital assets being depreciated, net	 <u>5,443,440</u>		 <u>5,284,343</u>
 Business Type Activity			
Capital assets, net	<u>\$6,430,613</u>	<u>\$(701,903)</u>	<u>\$5,728,710</u>
 Total Municipality			
Capital assets, net	<u>\$20,404,391</u>	<u>\$9,717,365</u>	<u>\$30,121,756</u>

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

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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 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 compared to 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.

On December 3, 2002, the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances determined in \$1,133,772. As of June 30, 2004, the related unpaid property tax advances presented in the statement of net assets amounted to \$1,123,153 and is payable in periodic installments as determined by the CRIM in a 30 years period until July 1, 2032, at variable interest rate (Law 42 of 2000).

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 2003-04 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 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.

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NOTE 7. DEFERRED REVENUES

- a. Municipal License Tax – The deferred revenues of \$541,908 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.
- 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:

<u>Program Description</u>	<u>Amounts</u>
Section 8 Housing Choice Vouchers	\$ 261,663
SBGP	34,045
Title III	56,309
Federal Agriculture	34,020
FEMA	<u>234,609</u>
Total	<u>\$ 620,646</u>

NOTE 8. LONG TERM DEBT

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

<u>Governmental Fund</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deduction</u>	<u>Ending Balance</u>	<u>Due with One year</u>
Bonds payable	\$2,708,000		\$ 55,000	\$ 2,653,000	\$ 67,000
Notes payable	570,000		130,000	440,000	140,000
Advances from Crim	1,133,772		10,619	1,123,153	14,952
Loan PR Treasury Dept	N/A	83,753	12,138	71,615	12,138
US Dept of Agriculture	<u>1,052,237</u>	<u>105,880</u>		<u>1,158,117</u>	-
	5,464,009			5,445,885	<u>\$ 234,090</u>
Compensated absences	<u>1,036,183</u>	<u>192,429</u>		<u>1,228,612</u>	
	<u>\$6,500,192</u>			<u>\$6,674,497</u>	

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 did not issued new bonds. Bonds payable outstanding at June 30, 2004 are as follows:

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	<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%	\$1,270,000
\$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%	103,000
\$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>1,280,000</u>
Total	<u>\$ 2,653,000</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, 2004 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	\$ 315,000
\$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>125,000</u>
Total notes payable	<u>\$ 440,000</u>
Total bonds and notes payable	<u>\$ 3,093,000</u>

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Annual debt service requirements to maturity for bonds and notes payable including loans made subsequent to June 30, 2004 for \$1,995,000 (see subsequent events note) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 242,000	\$ 264,633
2006	224,000	287,527
2007	230,000	274,523
2008	247,000	261,035
2009	260,000	246,351
There after	<u>3,885,000</u>	<u>2,250,489</u>
Total	<u>\$ 5,088,000</u>	<u>\$3,584,558</u>

Advances from- CRIM'-.'This amount represents the balance owed to CRIM at June 30, 2004 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. The original debt of \$1,133,772, is amortized in periodic installments as determined by the CRIM during a 30 years period until July 1, 2032, with variable interest rate (Law 42).

Loan PR Treasury Department – This amount represents a payment plan for advances in excess of property taxes collected as of June 30, 1993. The original debt of \$182,072 is amortized with annual installments of \$12,138 in a 15 years period until July 1, 2009; no interest charge is made (Law 80 of 1991).

Compensated absences – The government-wide statement of net assets includes \$1,228,612 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 - \$1,200,000 loan payable to Rural Development approved until November 17, 2007. Loan advances received amounted to \$1,158,117. The advances from governmental bank requires payment of interest at 4.875%. A balance of \$296,501 of accrued interest payable is reported as of June 30, 2004.

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

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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.

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 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 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, 2004 amounted to \$241,398.

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

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FOR THE YEAR ENDED JUNE 30, 2004

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, 2004, 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.

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, 2004, amounted to \$17,936. 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, 2004 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.

**COMMONWEAL OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE 13. SUBSEQUENT EVENTS

After June 30, 2004 the Municipality issued obligation bonds and notes as follows:

\$505,000 special obligation bond due in annual installments of \$10,000 to \$40,000 through July 1, 2030 with variable interes rate from 5% to 12% payable from General Fund.

\$470,000 general obligation bond due in annual installments of \$10,000 to \$30,000 through July 1, 2029 with variable interes rate from 2.85% to 12% payable from Debt Service Fund.

\$715,000 municipal general obligation note due in annual installments of \$90,000 to \$125,000 through July 1, 2011 with variable interes rate from 3.775% to 5.0% payable from Debt Service Fund.

\$305,000 special obligation bond due in annual installments of \$25,000 to \$40,000 through July 1, 2014 with variable interes rate from 5% to 12% payable from General Fund.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were required to convert June 30, 2003 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, and write-offs, as follows:

	Governmental Activities	Business Type Activities
Unrecorded Capital Assets – infrastructure land	\$ 9,211,720	\$ -
Adjustment to land valuation	-	(542,806)
Unrecorded Loan to PR Treasury Department	(83,753)	-
Prior years obligations write-off	546,692	-
Other items – net	(130,866)	-
Total	<u>\$ 9,543,793</u>	<u>\$ (542,806)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>Positive (Negative)</u>
RESOURCES (inflows):				
Property Taxes	\$ 1,529,626	\$ 1,529,626	\$ 1,897,913	\$ 368,287
Volume of Business Taxes	925,000	890,200	898,650	8,450
Government of P.R. Contributions	4,261,960	4,305,466	4,305,467	1
Contributions in lieu of taxes	1,485,865	1,485,865	1,485,865	-
Construction Tax	250,000	336,883	396,156	59,273
Rent	100,000	165,609	177,183	11,574
Interest	125,000	110,655	113,750	3,095
Other	489,173	924,695	972,558	47,863
	<u>9,166,624</u>	<u>9,748,999</u>	<u>10,247,542</u>	<u>498,543</u>
Amounts available for appropriations				
CHARGES TO APPROPRIATIONS (out flows):				
Municipal Council	124,504	106,960	99,299	7,661
Mayor office	720,996	840,479	832,267	8,212
Finance	3,151,943	3,385,066	3,296,332	88,734
Public work	2,016,949	2,384,851	2,376,441	8,410
Health	444,040	444,040	444,039	1
Civil Defence	255,793	205,067	204,533	534
Municipal Police	264,458	215,900	183,352	32,548
Personnel	138,593	182,944	179,923	3,021
Sports and recreation	306,014	318,251	313,935	4,316
Sanitation	994,209	1,031,442	992,428	39,014
Elderly Centers	133,770	118,082	117,976	106
Municipal Secretary	78,612	77,657	77,479	178
Public Relations	152,754	205,239	201,547	3,692
Internal Auditor	32,716	33,206	33,066	140
Purchases Department	87,324	45,452	44,516	936
Historical Turistic Center of Cibuco	263,949	154,363	154,180	183
Other	-	-	-	-
	<u>9,166,624</u>	<u>9,748,999</u>	<u>9,551,313</u>	<u>197,686</u>
Total charges to appropriations				
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 696,229</u>	<u>\$ 696,229</u>

The accompanying notes are integral part of the financial statements.

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>Positive (Negative)</u>
RESOURCES (inflows):				
Property Taxes	\$ 425,851	\$ 425,851	\$ 428,115	\$ 2,264
Interest	-	-	10,309	10,309
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriations	<u>425,851</u>	<u>425,851</u>	<u>438,424</u>	<u>12,573</u>
CHARGES TO APPROPRIATIONS (out flows):				
Long term loan amortization	185,000	185,000	170,000	15,000
Interest on long term debt	183,733	183,733	223,745	(40,012)
Reserve / CAE liquidation 2001-02	57,118	57,118	-	57,118
Transfer of interest earned to General Fund	-	-	10,548	(10,548)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>425,851</u>	<u>425,851</u>	<u>404,293</u>	<u>21,558</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,131</u>	<u>\$ 34,131</u>

The accompanying notes are integral part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>2004 EXPENDITURES</u>	<u>2003 EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Housing Choise Voucher	14.871	MP \$	622,051	\$ 680,188
Housing Opportunities for Persons with Aids (HOPWA)	14.241		19,283	
Indirect Program:				
Passed through P.R. Office of Municipal Affairs				
State Block Grant Program (SBGP)	14.228	MP	715,804	283,932
Total US Department of Housing and Urban Development			<u>1,357,138</u>	<u>964,120</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through P.R. Elderly Commission				
Title III, Part C, Nutrition Services	93.045		132,282	171,120
Total US Department of Health and Human Services			<u>132,282</u>	<u>171,120</u>
US FEDERAL EMERGENCY MANAGEMENT AGENCY				
Direct Program:				
Public Assistance Grants	83.544		49,355	39,597
Total US Federal Emergency Management Agency			<u>49,355</u>	<u>39,597</u>
US DEPARTMENT OF JUSTICE				
Direct Program:				
Public Safety Partnership and Community Policing Grants (Cops)	16.710		94,024	-
Total US Department of Justice			<u>94,024</u>	<u>-</u>
US DEPARTMENT OF AGRICULTURE				
Passed through Caguas Area Office				
Rural Economic Development Loans and Grants				
Federal Agriculture	10.854		26,554	31,456
Total US Department of Agriculture			<u>26,554</u>	<u>31,456</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,659,353</u>	<u>\$ 1,206,293</u>

MP = Major Program

The accompanying notes are integral part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

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.

JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

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**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTED 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, 2004, and have issued my report thereon dated November 22, 2004. 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 and opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items section in.

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 Rivera, CPA
License 2214



November 22, 2004
Toa Baja, Puerto Rico

Stamp No. 2010596 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



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

To the Honorable Mayor and
the Municipal Assembly
Municipality of 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, 2004. 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 and SBGP Programs 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, 2004.

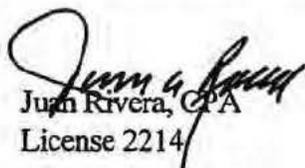
Internal Control Over Compliance

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 Rivera, CPA
License 2214

November 22, 2004
Toa Baja, Puerto Rico



Stamp No. 201097 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

II. Schedule of Financial Statements Findings and Questioned Costs

My examination of internal control with requirements of the Municipality of Corozal, for the year ended June 30, 2004 disclosed that grants funds were generally administered in a satisfactory manner.

Condition 04-1 Contracts Test

The following contracts did not include some necessary clauses:

<u>Contract Number</u>	<u>Condition</u>
118-F, 2003-2004	A
235, 2003-2004	B
081, 2003-2004	C

- A Does not required evidence of Income Tax Return Submission for the last five years.
- B Does not establish the hours or days to be work.
- C Does not establish the total amount for the services to be provide.

Criteria

The Comptroller of Puerto Rico requires on the Rule Number 33, the following:

The contract should establish the maximum amount, in order to obtain an adequate fiscal control. The contract should establish the maximum amount of hours or days to be worked, in order to maintain control over the disbursement made and to avoid services in excess of the amount accorded.

The Comptroller Offices Manual Instruction for contract clauses required that contractors must submit evidence of Tax Return files for the last five years.

Cause

The contracts did not were reviewed sufficiently.

Effect

The Contracts do not have all necessary clauses.

Recommendation

The Municipal Secretary should establish internal control procedures in order to avoid this situation to comply with the Regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

III. Federal Awards Findings and Questioned Costs

The examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2004 disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

**Section 8
CFDA No. 14.855**

Condition 04-1

The administrative plan must be updated and include all the provisions of the Section 8 Management Assessment Program (SEMAP). The waiting list process must be reviewed in order to comply with the regulation established under SEMAP regulations.

Criteria

Code of Federal Regulations (24 CFR 982.54) states that the administrative plan must include the SEMAP regulations.

Cause

The Municipality does not revise the administrative plan does not included all the regulations required.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation

The Municipality must review, update, approve and implement the administrative plan as soon as possible in order to comply with federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

Condition 04-2

The waiting list should be updated each year at least. The 34% of our sample of participants were selected from the waiting list that maintains applicants for over 10 years.

Criteria

Code of Federal Regulations requires (24 CFR 982.54 (d)(1) and 982.204(a)) that except for special admission, participants must be selected from the waiting list in accordance with admission policies in the administrative plan. In addition Code of Federal Regulations requires (24 CFR 982.204 and 982.206) the administrative plan must include policies for opens and closing the waiting list, and policies to updated the waiting list in order to removed names from the list if is necessary.

Cause

Some participants were not selected from the waiting list and the waiting list was not updated yearly.

Effect

The Municipality is not in compliance with federal regulations and not given the same opportunity to all participants.

Recommendation

The Municipality should follow the procedures of selecting from waiting list in order to give the same opportunity to all participants and to comply with federal regulations.

Condition 04-3

During the audit we observed that the written procedures of housing quality standards (HQS) exist but not implemented followed. None of our sample files include evidence of procedures are followed.

Criteria

Code of Federal Regulation requires (24 CFR 982.404) that any cited life-threatening HQS deficiencies are corrected within 24 hours from the inspection and all the other cited deficiencies are corrected within no more than 30 calendar days from the inspection or any PHA-approved extension.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

Condition 04-3 (Cont.)

Cause

The Municipality does not give the proper attention of HQS procedures to comply with federal regulations.

Effect

The Municipality does not have the assurance that the units are secure and comply with the standards of safe place.

Recommendation

The Municipality should improve the HQS procedures in order to comply with federal regulations.

Condition 04-4

During the audit we observed that the utility allowances table was not updated for the last two years.

Criteria

Code of Federal Regulation requires (24 CFR 982.517) the Municipality maintains an up-to-date utility allowance schedule.

Cause

The Municipality do not updated the utility allowances table as required by federal regulation.

Effect

The Municipality is not in compliance with HUD regulations.

Recommendation

The Municipality must reviewed the utility allowances table and implement, and establish procedures to comply with federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

Condition 04-5

Federal Program Office does not maintain proper accounting system to support the completed Financial Reports required by the program during the fiscal year 2003-2004.

Criteria

Code of Federal Regulations requires (24 CFR 982.158) the program must maintain complete and accurate accounts and other records in accordance with HUD requirements, in manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record keeping.

Cause

The Federal Program Office does not maintain the financial accounting system as required by federal regulations.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation

The Municipality must establish proper accounting system and maintain all the financial information in order to comply with federal regulations.

Condition 04-6

The Municipality did not maintain control over assigned vouchers, and also we do not observed procedures to promote the vouchers availability.

Criteria

As internal control rule, the Municipality should have identified the units available and make the enforcement to promote the availability of the services program in order to obtain units for rent.

Cause

The Municipality did not know they had more vouchers available for rent.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

Condition 04-6 (Cont.)

Effect

The Municipality has unassigned approved vouchers that will be cancelled by the grantee.

Recommendation

The Federal Program Director should implement procedures in order to maintain daily records of the voucher available or assigned, in order to maintain effective control over the program.

SBGP

CFDA No. 14.228

Condition 04-7

During the audit we observed there are some construction projects that require complying with Davis-Bacon Act. The federal program office did not realize the procedures of interviews and payroll reviews. We observed the payroll submitted by contractor contains errors of work classifications, because all workers were classified as labors. In addition only one employee belong to the Municipality of Corozal, and as part of the contract the contractor must to employ workers from Corozal in order to create employments in the area.

Criteria

Code of Federal Regulations (29 CFR part 5) requires contractors to work on construction contracts in excess of \$2,000 financed by federal funds must be paid wages not less than those established for the locality of the project. The Contractor should submit weekly, a copy of the payroll and the statement of compliance (certified payrolls). Some payroll interviews help to evaluate the contractors comply with this regulation.

Cause

The Municipality does not realize the required interviews and payroll review.

Effect

The Municipality is not in compliance with the Davis-Bacon Act.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

Condition 04-8

Recommendation

The Municipality should assign these duties to federal program employees in order to comply with the federal regulations mentioned above.

The SBGP program should to minimize the time elapsing between transfer the federal funds from agency (OCAM) and disbursement to suppliers.

Criteria

As required by Code of federal regulation (30 CFR part 205), the Pass-through entity should establish procedures to comply with requirements for cash management. OCAM established the federal funds should be used into three to five labor days in order to maintain less than \$5,000 on the bank account.

Cause

The Municipality does not make the disbursement into the three to five labor days required.

Effect

The Municipality is not in compliance with federal regulations of cash management.

Recommendation

The Municipality should establish procedures in conjunction with finance department in order to make the disbursement into the time required.

Condition 04-9

We observed that the financial information maintained in the Federal Program Office is not the same recorded in the Finance Department of the Municipality, because there are not a monthly reconciliation of the financial books into the Federal Program Office and the Finance Department.

Criteria

As required by Code of federal regulation (CFR 982.158), the Municipality should maintain complete and accurate accounts and other records for the program in accordance with federal agency requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

Condition 04-9 (Cont.)

Cause

There is not a monthly reconciliation of the financial information.

Effect

The financial information is not reliable in the Finance Department and the Federal Program Office until final conciliation.

Recommendation

The Federal Program Office should establish procedures in conjunction with Finance Department in order to reconcile the financial information in a monthly basis.

COPS

CFDA No. 16.710

Condition 04-10

Grant received from federal agency was deposited on the general fund account instead of separate bank account for the specific program purpose as required by federal regulation.

Criteria

The federal funds should be deposited on a separate bank account, for the purpose established by the program and not for generate interest, loan to another program or cover an overdraft, etc.

Cause

The Municipality did not open a separate bank account for the federal fund mentioned above.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation

The Municipality should open a bank account to manage the federal funds mentioned above and to comply with federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

**HOPWA
CFDA No. 10.854**

Condition 04-11

Grant received from federal agency was deposited on the general fund account and not in a separate bank account for the specific program as required.

Criteria

The federal funds should be deposited on a separate bank account, for the purpose established by the program and not for generate interest, loan to another program or cover an overdraft, etc.

Cause

The Municipality did not open a separate bank account for the federal fund mentioned above.

Effect

The Municipality is not in compliance with federal regulations.

Recommendation

The Municipality should open a bank account to manage the federal funds mentioned above and to comply with federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 03-1 Several versions of waiting list were developed for different purpose.	Still prevail
Section 8 CFDA No. 14.855	Condition 03-2 The families were not provided the required full orientation and information packet, as observed on a sample files.	Corrected
Section 8 CFDA No. 14.855	Condition 03-3 Electronic submission of Form 50058 was not observed on some files.	Still prevail
Section 8 CFDA No. 14.855	Condition 03-4 No quality control inspections were performed.	Still prevail
Section 8 CFDA No. 14.855	Condition 03-5 The rent reasonableness certifications are not being made.	Corrected
Section 8 CFDA No. 14.855	Condition 03-6 The administrative plan is not available for public in the Federal Program Office.	Corrected
Section 8 CFDA No. 14.855	Condition 03-7 The Municipality does not encourage participation by owners of unit located outside pockets of poverty concentrations.	Still prevail



Estado Libre Asociado de Puerto Rico
Municipio de Corozal
Oficina del Alcalde

Hon. Roberto Hernández Vélez
Alcalde

CORRECTIVE ACTION PLAN

November 22, 2004

Cognizant or Oversight Agency for Audit:

The Municipality of Corozal respectfully submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm: Juan Rivera, CPA, Mireya G-23, Ave. Boulevard, Levittown, Puerto Rico 00949.

Audit period: Fiscal year ended in June 30, 2004.

The findings from the June 30, 2004 schedule of finding and questioned costs are discussed below and are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 04-1: Section 8 Program – CFDA 14.855

Reportable Condition: See Condition 04-1

Recommendation:

The Municipality must review, update, approve and implement the administrative plan as soon as possible in order to comply with federal regulations.

Action Taken:

The Federal Program Director assigned to the Section 8 Coordinator to work reviewing and updating the administrative plan into thirty days in order to include all federal regulation required.

No. 9 Calle Cervantes, Corozal, P.R. 00783-1905 / Tel. (787) 859-3060 / (787) 859-2268
E-MAIL: corozal@coqui.net

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Finding 04-2: Section 8 Program – CFDA 14.855

Reportable Condition: See Condition 04-2

Recommendation:

The Municipality should follow the procedures of selecting from a waiting list in order to give the same opportunity to all participants and to comply with federal regulations.

Action Taken:

The Federal Program Director gave instructions to the Section 8 Coordinator of establish procedures of review the waiting list at least one time a year.

Finding 04-3: Section 8 Program – CFDA 14.855

Reportable Condition: See Condition 04-3

Recommendation:

The Municipality should improve the HQS procedures in order to comply with federal regulations.

Action Taken:

The Federal Program Director gave instructions to the Section 8 Coordinator to supervise the follow-up given to the deficiencies results from the inspections.

Finding 04-4: Section 8 Program – CFDA 14.855

Reportable Condition: See Condition 04-4

Recommendation:

The Municipality must reviewed the utility allowances table and implement, and establish procedures to comply with federal regulations.

Action Taken:

The Federal Program Director assigned to the Section 8 Coordinator the review and updates the utility allowances table into thirty days in order to comply with federal regulations.

Finding 04-5: Section 8 Program – CFDA 14.855

Reportable Condition: See Condition 04-5

Recommendation:

The Municipality must establish proper accounting system and maintain all the financial information in order to comply with federal regulations.

Action Taken:

The Federal Program Director assigned to the Section 8 Coordinator will review and update the financial books within thirty days. In addition, the Director requested to the Human Resources Department recruitment an Accountant for the Section 8 Program.

Finding 04-6: Section 8 Program – CFDA 14.855

Reportable Condition: See Condition 04-6

Recommendation:

The Federal Program Director should implement procedures in order to maintain daily records of the voucher available or assigned, in order to maintain effective control over the program.

Action Taken:

The Federal Program Director gave instructions to the Section 8 Coordinator to review the next 20 files within thirty days in order to assign the available vouchers.

Finding 04-7: SBGP Program – CFDA 14.228

Reportable Condition: See Condition 04-7

Recommendation:

The Municipality should assign these duties to federal program employees in order to comply with the federal regulations mentioned above.

Action Taken:

The Federal Program Director gave instructions to the Inspector to make procedures of adequate monitoring to contractors to ascertain that they are complying with all regulations.

Finding 04-8: SBGP Program – CFDA 14.228

Reportable Condition: See Condition 04-8

Recommendation:

The Municipality should establish procedures in conjunction with Finance Department in order to make the disbursement with the required time.

Action Taken:

The Federal Program Director gave instructions to the Accountant to establish procedures together with the Finance Department to coordinate efficiently the request of funds in order to disburse immediately after receipt or within three business days.

Finding 04-9: SBGP Program – CFDA 14.228

Reportable Condition: See Condition 04-9

Recommendation:

The Federal Program Office should establish procedures in conjunction with the Finance Department in order to reconcile the financial information in a monthly basis.

Action Taken:

The Federal Program Director gave instructions to the Accountant to work together with the Finance Department to maintain adequate and accurate accounting records.

Finding 04-10: Cops Program – CFDA 16.710

Reportable Condition: See Condition 04-10

Recommendation:

The Municipality should open a bank account to manage the federal funds mentioned above and to comply with federal regulations.

Action Taken:

The Finance Director opened a bank account number 054-129427 in order to transfer the balance and continue managing the federal funds separate from the other programs.

Finding 04-11: Hopwa Program – CFDA 10.854

Reportable Condition: See Condition 04-11

Recommendation:

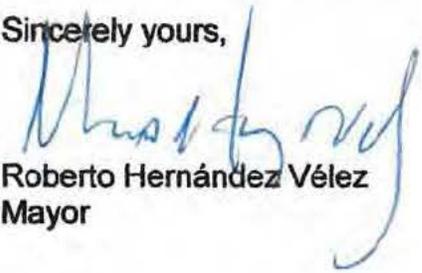
The Municipality should open a bank account to manage the federal funds mentioned above and to comply with federal regulations.

Action Taken:

The Finance Director opened a bank account with the number 054-129362, in order to transfer the balance and continue managing the federal funds separate from the other programs.

The further information, please call Mrs. Yanira Hernández, Federal Programs Director at (787) 859-3060.

Sincerely yours,


Roberto Hernández Vélez
Mayor



Estado Libre Asociado de Puerto Rico
Municipio de Corozal
Oficina del Alcalde

Hon. Roberto Hernández Vélez
Alcalde

6 de abril de 2005

Lcdo. Ángel M. Castillo
Comisionado
PO Box 70167
San Juan, P. R. 00936-8167

Atención: Comisionada Auxiliar
Área de Reglamentación e Intervención

RE: Informe Plan de Acción Correctiva
"Auditoría Sencilla" al 30 de junio de 2004

Estimado Lcdo. Castillo

Cumpliendo con las disposiciones de la Sección 315 (3) (iii)© "Corrective Action Plan" de la Carta Circular OMB-A-133 emitida por la Oficina de Gerencia y Presupuesto del Gobierno de E.U., le estamos sometiendo el Plan de Acción Correctiva correspondiente al Single Audit que finalizó el 30 de Junio de 2004.

Las situaciones que fueron señaladas en el Informe de Referencia se le está dando seguimiento para corregirlas en su totalidad. Se acompaña los anejos correspondientes. Para información relacionada, estamos a sus órdenes.

Cordialmente;

Roberto Hernández Vélez

No. 9 Calle Cervantes, Corozal, P.R. 00783-1905 / Tel. (787) 859-3060 / (787) 859-2268
E-MAIL: corozal@coqui.net

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**INFORME PLAN DE ACCION CORRECTIVA
Single Audit 2003-2004**

Departamento: **Finanzas y Programas Federales**

Programa: **Programa HUD**

Funcionario principal: **Roberto Hernández Vélez**

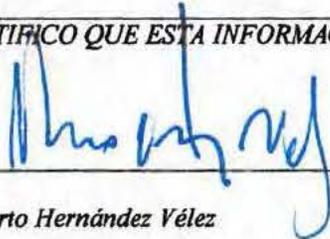
Período auditado: **1 de julio de 2003 al 30 de junio de 2004**

Indique: PAC ICP

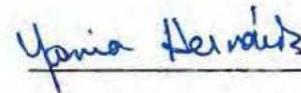
Fecha: **5 de abril de 2005**

RECOMENDACION	ACCION CORRECTIVA	RESULTADO
Condición 04-1 Contracts Test Establecer el control interno necesario para cumplir con las regulaciones y cláusulas mandatorias.	Contrato 118-f esta es una enmienda al contrato original. Tiene una cláusula donde se indica que todas las cláusulas del contrato anterior se mantienen igual. En el contrato original se incluyó la certificación de los cinco años.	Cumplimentado
	Contrato 235 – No se estableció pago por horas ni días ya que el contrato fue pautado por la preparación de la propuesta, se desconocía la cantidad de horas que se incurriría finalmente.	Cumplimentado

CERTIFICO QUE ESTA INFORMACION ES CORRECTA



Roberto Hernández Vélez



Yanira Hernández Morales

Fecha

PLAN DE ACCION CORRECTIVA
Continuación

<p><u>Condition 04-1 Section 8</u></p>		
<p>4-1 Actualizar el Plan Administrativo</p>	<p><i>Se contrató un consultor para la actualización del Plan Administrativo (Contrato No. 205) Ver anejo # 1</i></p>	<p><i>Cumplimentado</i></p>
<p>4-2 Waiting List</p>	<p><i>Se comenzó el proceso de notificarles por escrito a todos los participantes en espera. Ver anejo # 2</i></p>	<p><i>Parcialmente cumplimentado</i></p>
<p>4-3 Control de Inspecciones de Calidad (HQS)</p>	<p><i>Se está implementando el debido procedimiento, el cual establece que las deficiencias de alto riesgo deben corregirse en 24 horas desde el día de la inspección y las demás deficiencias tienen que corregirse dentro de 30 días calendarios excepto si existe una extensión aprobada al respecto. Ver anejo # 3</i></p>	<p><i>Parcialmente cumplimentado</i></p>
<p>4-4 Tabla de Utilidades</p>	<p><i>Se preparó Tabla de Utilidades actualizada de acuerdo a estudio realizado, se ampliará la muestra de dicho estudio a seis meses. Luego, la Tabla final se someterá a HUD para aprobación e implementación. Ver anejo # 4.</i></p>	<p><i>Cumplimentado</i></p>
<p>4-5 Libros de contabilidad</p>	<p><i>HUD está ofreciendo cursos de contabilidad fuera de Puerto Rico, al cual asistirá la Contable y la Directora de Programas Federales. En dicho curso, nos enseñarán el nuevo método que requiere HUD de llevar la contabilidad.</i></p>	<p><i>Parcialmente Cumplimentado</i></p>

Certifico Correcto,

RSD

 Iniciales

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zH

 Iniciales

PLAN DE ACCION CORRECTIVA
 Continuación
 Prior Year Findings

<p>Conditions: <i>Condition 03-01 Waiting List</i></p>	<p><i>Comenzamos el debido procedimiento de notificarles mediante carta a las personas pre-cualificadas, anotadas en el Listado de espera para que actualicen la información y nos indiquen si continúan interesados en el programa. Los participantes que no respondan quedarán fuera del Listado de Espera.</i></p>	<p><i>Parcialmente Cumplimentado</i></p>
<p><i>Condition 03-03 Electronic Submission of Form 50058</i></p>	<p><i>Notifiqué al Lcdo. Rodríguez de HUD que solicité ayuda técnica al señor Albin Medina, empleado del Municipio para revisar el sistema completo de Sección 8, una vez podamos resolver el problema técnico; llevaremos la data al municipio de Bayamón ó al de Manatí para realizar la transmisión de la Data.</i></p>	<p><i>Parcialmente Cumplimentado</i></p>
<p><i>Condition 03-04 Quality Control – Inspections</i></p>	<p><i>Estamos revisando los expedientes para darle instrucciones específicas al inspector de realizar el debido procedimiento.</i></p>	<p><i>Parcialmente Cumplimentado</i></p>
<p><i>Condition 03-07 Participation by owners of unit located outside pockets of poverty concentrations.</i></p>	<p><i>Consulté con el Sr. Rodríguez de HUD al respecto, me aconsejó bajar del Internet la sección CFR 24 parte 985.</i></p>	<p><i>Parcialmente Cumplimentado</i></p>

Certifico Correcto,

R.H.V.

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