

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

MUNICIPIO DE COROZAL
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

06-244

06 JAN 13 PM 3:44

RECIBIDO
UNIDAD DE CORREO

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedules**

Year Ended June 30, 2005

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds (Historic and Tourist Center of Cibuco):	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20
Notes to Financial Statements	21
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	40
Budgetary Comparison Schedule – Debt Service Fund	41
Notes to Budgetary Comparison Schedule	42
Other Supplemental Information:	
Schedule of Expenditure of Federal Awards	43
Notes to Schedule of Expenditure of Federal Awards	44
INTERNAL ACCOUNTING CONTROLS AND COMPLIANCE SECTION	
Independent Auditor's Report on Compliance and on Internal Control in accordance with Government Auditing Standards	45
Independent Auditor's Report on Compliance and Internal Control in accordance with OMB Circular A-133	47
Schedule of Findings and Questioned Cost	49
Schedule of Prior Year Findings and Questioned Cost	54
Corrective Action Plan	56


JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

Phone: 787-784-2255
Fax: 787-784-2250
Email: jmelecio@hotmail.com

G - 23, MIREYA ST, BOULEVARD AVE., LEWISTOWN, P.R. 00949

INDEPENDENT AUDITORS' REPORT

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

We 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, 2005, 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. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal of the Commonwealth of Puerto Rico, as of June 30, 2005, 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, we have also issued our report dated December 12, 2005 on our consideration of the Government's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of our audit.

Our audit were performed for the purpose of forming an opinion on the general purpose financial statements 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 our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Juan A Rivera, CPA
License # 2214

Toa Baja, Puerto Rico
December 12, 2005



NOTE: Stamp No. 2105586 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original report.

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

Our discussion and analysis of the Municipality of Corozal (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2005. 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 Governmental Activities net assets increased by \$1,967,820, including prior period adjustments mainly for capitalization of buildings and improvements of \$1,848,887, and excess revenues over expenditures of \$118,933.

The Municipality Business Type Activities net assets decreased by \$128,893 due to depreciation charges of \$159,768 and a prior period adjustment for understatement of building valuation of \$30,875.

In the fund financial statements, the governmental activities revenue increased \$45,891 (or 0.4%) while governmental activities expenditures increased \$2,215,921 (or 15%) including capital expenditures.

The General Fund Balance (the primary operating fund) reflected, on a current financial resource basis, a increase of \$53,935.

On a budgetary basis, actual revenues exceeded actual expenditures by \$71,311.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$349,526.

Capital expenditures for acquisition of vehicles, construction and improvements of recreational facilities, amounted to \$3,331,026.

During current year the Municipality issued long-term debt amounting to \$1,995,000 to finance capital expenditures and improvements.

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

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.

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.

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

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.

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 OF COROZAL
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$25,740,790 at the end of current year, compared to \$23,772,970 at the end of the previous- year; this increase of \$1,967,820 includes prior period adjustments mainly for capitalization of buildings and improvements of \$1,848,887 and excess revenues over expenditures of \$118,933. The combined net assets of the proprietary business type activities totaled \$5,599,817 at the end of current year, compared to \$5,728,710 at the end of the previous- year; this decrease of \$128,893 was due to depreciation charges of \$159,768 and a prior period adjustment for understatement of building valuation of \$30,875.

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.

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

**Condensed Statement of Net Assets
As of June 30, 2005 and 2004**

	<u>Governmental Activities</u>		<u>Component Unit</u>	
	2005	2004	2005	2004
Current assets	\$ 8,714,830	\$ 8,271,955	\$ 2,360	\$ 2,950
Capital assets-net	28,470,387	24,393,046	5,599,817	5,728,710
Other assets	<u>1,281,176</u>	<u>1,346,843</u>	<u>-</u>	<u>-</u>
Total assets	<u>38,466,393</u>	<u>34,011,484</u>	<u>5,602,177</u>	<u>5,731,660</u>
Current liabilities	4,376,194	3,798,107	2,360	2,950
Noncurrent liabilities	<u>8,349,409</u>	<u>6,440,407</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>12,725,603</u>	<u>10,238,514</u>	<u>2,360</u>	<u>2,950</u>
Invested in capital assets, net of related debt	22,426,270	20,141,929	5,599,817	5,728,710
Unrestricted – (deficit)	(1,905,020)	(1,518,472)		
Restricted	<u>5,219,540</u>	<u>5,149,513</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 25,740,790</u>	<u>\$ 23,772,970</u>	<u>\$ 5,599,817</u>	<u>\$ 5,728,710</u>

Changes in Net Assets

The Municipality's governmental activities net assets increases by \$1,967,820; including prior period adjustments mainly for capitalization of buildings and improvements of \$1,848,887 and \$118,933 excess revenues over expenditures. Approximately 24 percent of the Municipality's revenue came from taxes, while 68 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 8 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 \$128,893 due to depreciation charges of \$159,768 and a prior period adjustment for understatement of building valuation of \$30,878. 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.

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

**Condensed Statement of Activities
For the years ended June 30, 2005 and 2004**

GOVERNMENTAL ACTIVITIES:

	<u>2005</u>	<u>2004</u>
Program revenues:		
Charges for services	\$ 843,651	\$ 995,386
Operating grants and contributions	2,122,224	2,080,580
Capital grants and contributions	1,032,475	-
General revenues:		
Property taxes	2,082,377	2,326,028
Municipal license tax	971,151	898,250
Interest and investment earnings	184,709	113,511
Grants and contributions not restricted	<u>5,514,791</u>	<u>6,291,732</u>
Total revenues	<u>12,751,378</u>	<u>12,705,487</u>
Expenses:		
General Administration	4,553,285	4,377,821
Health	458,332	444,039
Housing	691,366	622,051
Public safety	759,390	516,192
Sports and recreation	286,608	313,935
Sanitation	1,070,526	992,428
Elderly Centers	282,604	250,258
Interest on long-term debt	307,364	378,989
Depreciation	1,199,493	1,003,012
Public works	<u>3,023,477</u>	<u>2,676,450</u>
Total expenses	<u>12,632,445</u>	<u>11,575,175</u>
Excess revenues over expenses	<u>\$ 118,933</u>	<u>\$ 1,130,312</u>

BUSINESS TYPE ACTIVITIES:

Revenues:		
Grants and contributions	\$ 171,519	\$ 103,669
Fees	<u>20,060</u>	<u>50,511</u>
	<u>191,579</u>	<u>154,180</u>
Expenses:		
Operating and maintenance	191,579	154,180
Depreciation	<u>159,768</u>	<u>159,097</u>
Total expenses	<u>351,347</u>	<u>313,277</u>
Excess revenues over expenses	<u>\$ (159,768)</u>	<u>\$ (159,097)</u>

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

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 \$6,029,884 a decrease of \$24,537 in comparison with the prior year. There are reservations of fund balance amounting to \$5,219,540. 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 (\$267,388), 2) to pay debt service (\$1,316,328), 3) to pay for capital projects (\$2,963,951) or 4) for other purposes (\$671,873). Accordingly, the unreserved fund balance amounts to \$810,340 in the governmental funds.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2005, the general fund has a balance of \$1,204,093. The fund balance of the general fund decrease by \$224,714. Key factors in the increase of the fund balance are as follows:

• Excess revenues over expenditures	\$ 235,266
• Operating transfer to other governmental fund	(181,331)
• Prior period adjustment for AEE receivable overstatement	(278,649)

Revenues decreased by \$897,600 due to decreases of \$593,133 in other non-recurrent revenues, \$311,036 in Contributions in lieu of taxes and a net increase of \$6,569 in all other revenue items.

The operating transfer to the other governmental funds of \$181,331 was mainly directed to the improvement of infrastructure.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$349,526.

No major changes were reported for the Joint Resolutions Fund, the Debt Service Fund, nor Other Governmental Funds.

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

Business-type Activities

Revenues of the Municipality's business-type activities reported \$191,579 while expenses amounted to \$351,347, including a charge for depreciation of \$159,768.

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 a decrease in Contributions in lieu of taxes of \$261,019. In summary the general fund actual revenues were under budget by \$242,729 and actual expenditures were under budget by \$314,040, for a net favorable variance of \$71,311.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets, including business type activities, as of June 30, 2005, amounts to \$45,452,792, with accumulated depreciation of \$11,382,588; leaving a net book value of \$34,070,204. 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 \$3,339,142 for the year. Depreciation charges for the year totaled \$1,359,261, of which \$1,199,493 are related to governmental activities and \$159,768 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, 2005 the Municipality has \$2,963,951 of unexpended proceeds from bond issuances that are committed to future construction activities, including completion of the Convention Center 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

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

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 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, 2005 the Municipality issued long-term debt in the amount of \$1,995,000. As of June 30, 2005 the Municipality Long-Term Debt is composed as follows:

Bonds payable	\$4,586,000
Notes payable	300,000
Loan P.R. Treasury Department	59,477
Advances from CRIM	1,098,045
Loan US Department of Agriculture	<u>1,158,117</u>
	\$7,201,639

Other long-term obligations consist of \$1,557,838 of accrued compensated absences such as vacations, sick leave, Christmas bonus and related taxes.

As of June 30, 2005 the Municipality redemption fund (debt service) has a balance of \$1,189,963, which is restricted for the payment of long-term debt principal and interest.

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

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 2005-2006 fiscal year.

In summary all revenues and expenditures for the general fund were budgeted in \$10,161,405 which represents a net increase of \$609,733 or 6%. The most significant changes presented between the budget for fiscal year 2004-2005 and the one for fiscal year 2005-2006 are the following:

Increase in PR Government Contributions	\$1,017,200
Net decrease in all other revenue items	(407,467)
Increase in Municipal Police expenditures	255,453
Increase in Sanitation expenditures	187,114
Net increase in all other expenditure items	167,166

FINANCIAL CONTACT

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS</u> <u>ACTIVITIES</u>	<u>2005</u> <u>TOTAL</u>	<u>2004</u> <u>TOTAL</u>
ASSETS				
Current Assets:				
Cash	\$ 1,675,491	\$ -	\$ 1,675,491	\$ 1,367,848
Cash held with fiscal agent	2,633,433		2,633,433	2,073,644
Investment	2,662,391		2,662,391	3,340,371
Accounts receivable:				
Volume of Business Tax			-	4,227
Other	48,808	2,360	51,168	2,950
Due from other governments	<u>1,694,707</u>	<u>-</u>	<u>1,694,707</u>	<u>1,485,865</u>
Total current assets	<u>8,714,830</u>	<u>2,360</u>	<u>8,717,190</u>	<u>8,274,905</u>
Noncurrent Assets:				
Cash held with fiscal agent	1,281,176		1,281,176	1,346,483
Capital Assets (net of depreciation)	<u>28,470,387</u>	<u>5,599,817</u>	<u>34,070,204</u>	<u>30,121,756</u>
Total noncurrent assets	<u>29,751,563</u>	<u>5,599,817</u>	<u>35,351,380</u>	<u>31,468,239</u>
TOTAL ASSETS	<u>38,466,393</u>	<u>5,602,177</u>	<u>44,068,570</u>	<u>39,743,144</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	532,488	2,360	534,848	669,775
Due to other governmental units	1,305,709		1,305,709	1,363,348
Deferred Revenues	1,623,393		1,623,393	1,162,554
Accrued interest on Loans	504,536		504,536	371,290
Current portion of long term debt	<u>410,068</u>	<u>-</u>	<u>410,068</u>	<u>234,090</u>
Total current liabilities	<u>4,376,194</u>	<u>2,360</u>	<u>4,378,554</u>	<u>3,801,057</u>
Noncurrent Liabilities:				
Advances from CRIM	1,098,045		1,098,045	1,123,153
Loan PR Treasury Department	59,477		59,477	71,615
Bonds Payable	4,586,000		4,586,000	2,653,000
Notes payable	300,000		300,000	440,000
Accrued compensated absences	1,557,838		1,557,838	1,228,612
Advances US Department of Agriculture	<u>1,158,117</u>	<u>-</u>	<u>1,158,117</u>	<u>1,158,117</u>
	8,759,477	-	8,759,477	6,674,497
Less: Reported as current portion	<u>(410,068)</u>	<u>-</u>	<u>(410,068)</u>	<u>(234,090)</u>
Total noncurrent liabilities	<u>8,349,409</u>	<u>-</u>	<u>8,349,409</u>	<u>6,440,407</u>
TOTAL LIABILITIES	<u>12,725,603</u>	<u>2,360</u>	<u>12,727,963</u>	<u>10,241,464</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	22,426,270	5,599,817	28,026,087	25,870,639
Restricted for Capital Projects	2,963,951		2,963,951	2,614,425
Restricted for Debt Service	1,316,328		1,316,328	1,485,772
Restricted for Other Purposes	671,873		671,873	739,495
Reserve for Encumbrances	267,388		267,388	309,821
Unrestricted	<u>(1,905,020)</u>	<u>-</u>	<u>(1,905,020)</u>	<u>(1,518,472)</u>
TOTAL NET ASSETS	<u>\$ 25,740,790</u>	<u>\$ 5,599,817</u>	<u>\$ 31,340,607</u>	<u>\$ 29,501,680</u>

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING	CAPITAL	GOVERNMENTAL ACTIVITIES	BUSINESS	2005 TOTAL	2004 TOTAL
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS		TYPE ACTIVITIES		
GOVERNMENTAL ACTIVITIES:								
General Administration	\$ 4,553,285	\$ 443,798	\$ -	\$ -	\$ (4,109,487)		\$ (4,109,487)	\$ (3,660,400)
Public work	3,023,477	399,853	1,192,805	1,032,475	(398,344)		(398,344)	(1,072,627)
Health	458,332				(458,332)		(458,332)	(444,039)
Civil Defence	228,074				(228,074)		(228,074)	(219,533)
Municipal Police	531,316		81,117		(450,199)		(450,199)	(202,635)
Sports and recreation	286,608				(286,608)		(286,608)	(313,935)
Sanitation	1,070,526				(1,070,526)		(1,070,526)	(992,428)
Elderly Centers	282,604		156,936		(125,668)		(125,668)	(23,157)
Housing	691,366		691,366		-		-	(188,454)
Interest on Long Term Debt	307,364				(307,364)		(307,364)	(378,989)
Depreciation	<u>1,199,493</u>	-	-	-	<u>(1,199,493)</u>		<u>(1,199,493)</u>	<u>(1,003,012)</u>
Total governmental activities	<u>12,632,445</u>	<u>843,651</u>	<u>2,122,224</u>	<u>1,032,475</u>	<u>(8,634,095)</u>		<u>(8,634,095)</u>	<u>(8,499,209)</u>
BUSINESS TYPE ACTIVITIES:								
Operations	191,579	20,060	171,519				-	-
Depreciation	<u>159,768</u>	-	-	-			<u>(159,768)</u>	<u>(159,097)</u>
Total business type activities	<u>351,347</u>	<u>20,060</u>	<u>171,519</u>	-			<u>(159,768)</u>	<u>(159,097)</u>
TOTAL ACTIVITIES	<u>\$ 12,983,792</u>	<u>\$ 863,711</u>	<u>\$ 2,293,743</u>	<u>\$ 1,032,475</u>			<u>\$ (8,793,863)</u>	<u>\$ (8,658,306)</u>
GENERAL REVENUES:								
Property taxes, levied for general purposes					\$ 1,810,968		\$ 1,810,968	\$ 1,897,913
Property taxes, levied for debt services					271,409.00		271,409	428,115
Volume of business taxes					971,151		971,151	898,650
Government of P.R. contribution					4,339,962		4,339,962	4,305,467
Contributions in lieu of taxes					1,174,829		1,174,829	1,485,865
Prior years surplus					-		-	500,000
Interest					<u>184,709</u>		<u>184,709</u>	<u>113,511</u>
TOTAL GENERAL REVENUES					<u>8,753,028</u>		<u>8,753,028</u>	<u>9,629,521</u>
CHANGES IN NET ASSETS					118,933	(159,768)	(40,835)	971,215
Prior period adjustments					1,848,887		1,879,762	9,000,987
Net assets - beginning of period					<u>23,772,970</u>		<u>29,501,680</u>	<u>19,529,478</u>
Net assets - ending of period					<u>\$ 25,740,790</u>	<u>\$ 5,599,817</u>	<u>\$ 31,340,607</u>	<u>\$ 29,501,680</u>

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>GENERAL</u>	<u>JOINT</u>	<u>CAPITAL</u>	<u>DEBT</u>	<u>OTHER</u>	<u>2005</u>	<u>2004</u>
ASSETS	<u>FUND</u>	<u>RESOLUTIONS</u>	<u>PROJECTS</u>	<u>SERVICES</u>	<u>GOVERNMENTAL</u>	<u>GOVERNMENTAL</u>	<u>GOVERNMENTAL</u>
					<u>FUNDS</u>	<u>FUNDS</u>	<u>FUNDS</u>
Cash	\$ 351,350	\$ 249,925	\$ 4,886	\$ -	\$ 1,069,330	\$ 1,675,491	\$ 1,367,848
Cash held with fiscal agent			2,633,433	1,281,176		3,914,609	3,420,127
Investment	2,662,391					2,662,391	3,340,371
Accounts receivable:							
Volume of Business Tax	-					-	4,227
Property Taxes	48,808					48,808	
Due from other governments	1,174,829				519,878	1,694,707	1,485,865
Due from other funds	811,709	179,873	678,592		471,258	2,141,432	1,541,562
Inventories	-	-	-	-	-	-	-
TOTAL ASSETS	<u>5,049,087</u>	<u>429,798</u>	<u>3,316,911</u>	<u>1,281,176</u>	<u>2,060,466</u>	<u>12,137,438</u>	<u>11,160,000</u>
LIABILITIES							
Accounts payable	532,488	-	-	-	-	532,488	666,825
Due to other governmental units	1,305,709					1,305,709	1,363,348
Deferred Revenues	616,711				1,006,682	1,623,393	1,162,554
Accrued interest on Loans	60,363		352,960	91,213		504,536	371,290
Due to other funds	1,329,723	-	-	-	811,709	2,141,432	1,541,562
TOTAL LIABILITIES	<u>3,844,994</u>	<u>-</u>	<u>352,960</u>	<u>91,213</u>	<u>1,818,391</u>	<u>6,107,558</u>	<u>5,105,579</u>
FUND BALANCES							
Reserved for:							
Inventories						-	-
Capital Projects			2,963,951			2,963,951	2,614,425
Debt Service	126,365			1,189,963		1,316,328	1,485,772
Other Purposes		429,798			242,075	671,873	739,495
Encumbrances	267,388					267,388	309,821
Unreserved	810,340	-	-	-	-	810,340	04,908
TOTAL FUND BALANCES	<u>1,204,093</u>	<u>429,798</u>	<u>2,963,951</u>	<u>1,189,963</u>	<u>242,075</u>	<u>6,029,880</u>	<u>6,054,421</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,049,087</u>	<u>\$ 429,798</u>	<u>\$ 3,316,911</u>	<u>\$ 1,281,176</u>	<u>\$ 2,060,466</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						28,470,387	24,393,046
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds						(8,759,477)	(6,674,497)
NET ASSETS OF GOVERNMENTAL ACTIVITIES						<u>\$ 25,740,790</u>	<u>\$ 23,772,970</u>

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2005 TOTAL GOVERNMENTAL FUNDS	2004 TOTAL GOVERNMENTAL FUNDS
REVENUES:							
Property taxes	\$ 1,810,968	\$ -	\$ -	\$ 271,409	\$ -	\$ 2,082,377	\$ 2,326,028
Volume of Business Taxes	971,151					971,151	898,650
Government of P.R. Contributions	4,339,962	257,647			802,722	5,400,331	4,305,467
Contributions in lieu of taxes	1,174,829					1,174,829	1,485,865
Grants and contributions	-		990,498		1,103,832	2,094,330	2,080,580
Charges for services	399,853					399,853	396,156
Rent	45,642					45,642	126,672
Interest	167,053			17,656		184,709	113,511
Miscellaneous	379,425				18,731	398,156	972,558
TOTAL REVENUES	9,288,883	257,647	990,498	289,065	1,925,285	12,751,378	12,705,487
EXPENDITURES:							
General Administration	4,553,285					4,553,285	4,377,821
Public work	2,021,433	197,521			804,523	3,023,477	2,676,450
Health	458,332					458,332	444,039
Civil Defence	227,119				955	228,074	219,533
Municipal Police	198,473				332,843	531,316	296,659
Sports and recreation	286,608					286,608	313,935
Sanitation	1,070,526					1,070,526	992,428
Elderly Centers	101,239				181,365	282,604	250,258
Housing					691,366	691,366	622,051
Capital Outlay	12,610		2,775,642		41,977	2,830,229	1,496,425
Principal Retirement on Long Term Debt	42,085			187,000		229,085	207,757
Interest on Long Term Debt	81,907		56,459	168,998		307,364	378,989
TOTAL EXPENDITURES	9,053,617	197,521	2,832,101	355,998	2,053,029	14,492,266	12,276,345
EXCESS REVENUES OVER EXPENDITURES	235,266	60,126	(1,841,603)	(66,933)	(127,744)	(1,740,888)	429,142
OTHER FINANCING SOURCES (USES):							
Capital related debt issued	-		1,995,000			1,995,000	-
Transfers	(181,331)		196,129	(14,798)		-	-
TOTAL OTHER FINANCING SOURCES	(181,331)		2,191,129	(14,798)		1,995,000	-
NET CHANGES IN FUND BALANCES	53,935	60,126	349,526	(81,731)	(127,744)	254,112	429,142
Prior periods adjustments AEE variance	(278,649)					(278,649)	-
FUND BALANCES, BEGINNING OF YEAR	1,428,807	369,676	2,614,425	1,271,694	369,819	6,054,421	5,625,279
FUND BALANCES, END OF YEAR	\$ 1,204,093	\$ 429,802	\$ 2,963,951	\$ 1,189,963	\$ 242,075	\$ 6,029,884	\$ 6,054,421

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

04/06/2005

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>2005</u>	<u>2004</u>
Net changes in fund balances - total governmental funds	\$ 254,112	\$ 429,142
 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 (\$2,830,229) exceed depreciation expense (\$1,199,493) in the current period.	1,630,736	493,413
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$1,995,000) exceeded repayments (\$229,085).	<u>(1,765,915)</u>	<u>207,757</u>
 Changes in net assets of governmental activities	 <u>\$ 118,933</u>	 <u>\$ 1,130,312</u>

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

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

**HISTORIC AND TOURISTIC CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Petty cash	\$ -	\$ -
Cash in Bank	-	-
	-	-
Accounts receivable:		
Other	2,360	2,950
Allowance for bad debts	-	-
	2,360	2,950
Total current assets	2,360	2,950
Fixed Assets:		
Land	444,367	444,367
Buildings and improvements	5,533,562	5,500,000
Equipment, furniture and fixtures	261,650	261,650
Other	117,180	117,180
	6,356,759	6,323,197
Accumulated depreciation	(756,942)	(594,487)
Total fixed assets	5,599,817	5,728,710
Other assets:	-	-
Total assets	<u>5,602,177</u>	<u>5,731,660</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - trade	2,360	2,950
Other	-	-
Total current liabilities	2,360	2,950
Net assets:		
Net investment in fixed assets	5,599,817	5,728,710
Unrestricted	-	-
Net assets	<u>5,599,817</u>	<u>5,728,710</u>
Total liabilities and net assets	<u>\$ 5,602,177</u>	<u>\$ 5,731,660</u>

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
PROPRIETARY FUND**

**HISTORIC AND TOURISTIC CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Admission fee	\$ 20,060	\$ 37,011
Rental fee	-	13,500
Other income - municipal participation	<u>171,519</u>	<u>103,669</u>
Total revenues	191,579	154,180
EXPENSES:		
Operating and maintenance	191,579	154,180
Depreciation	159,768	159,097
Other	<u>-</u>	<u>-</u>
COST OF OPERATIONS	<u>351,347</u>	<u>313,277</u>
EXCESS COSTS OVER REVENUES	(159,768)	(159,097)
OTHER LOSS	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(159,768)	(159,097)
Prior Period Adjustments	30,875	(542,806)
BEGINNING NET ASSETS	<u>5,728,710</u>	<u>6,430,613</u>
ENDING NET ASSETS	<u>\$ 5,599,817</u>	<u>\$ 5,728,710</u>

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

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

**HISTORIC AND TOURISTIC CENTER OF CIBUCO
(PROPERTY OF MUNICIPALITY OF COROZAL)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (159,768)	\$ (159,097)
Depreciation expenses	159,768	159,097
(Increase) Decrease in accounts receivable -	590	324
Increase (Decrease) in accounts payable - trade	(590)	(324)
Other items	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in other equipment	-	-
NET CASH USED IN INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in mortgage payable	-	-
NET INCREASE (DECREASE) IN CASH	-	-
CASH AT BEGINNING OF YEAR	-	-
CASH AT END OF YEAR	\$ -	\$ -

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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, 2005, 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).

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

The RSI is information presented along with, but separate from, the Municipality's basic financial statements. RS1 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, 2005, 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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

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

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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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

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

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

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 require 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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

the private sector. The reporting entity includes the Historic and Tourist Center of Cibuco.

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

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government 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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

E. Assets, liabilities and net assets

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

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

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

As of June 30, 2005 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$1,180,873
PR Telephone Company	54,572
PR Sewer and Sanitary Authority	4,914
PR Workmen Compensation System	13,613
PR Retirement System	<u>51,737</u>
	\$1,305,709

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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.

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

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

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

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

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

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

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

vacation pay is accrued when incurred in the government-wide financial statements.

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

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

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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

b. Intra-Entity Transactions - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

9. Risk financing - The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2005 amounted to \$142,114. 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 pledge 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 \$351,350 in the general fund were fully collateralized at June 30, 2005. In the other governmental funds there were deposits with commercial banks of \$249,925, \$4,886 and \$1,069,330 respectively, that were fully collateralized.

The deposits at GDB of \$2,633,433 restricted principally for capital projects, and the \$1,281,176 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. 11100019-25)	\$2,000,000
Government Development Bank of P.R. (No. 25)	<u>662,391</u>
Total	<u>\$2,662,391</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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, 2005, 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, 2005, 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.

Due from other government in the other governmental funds are the following:

Commonwealth of PR – Law 52	\$ 422,613
U.S. Department of Justice – COPS Program	80,891
Commonwealth of PR – Community Development Program	<u>16,374</u>
	<u>\$ 519,878</u>

c. Other – Other accounts receivable as of June 30, 2005 are as follows:

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 4. INTER FUND TRANSACTIONS

Inter fund – receivables and payables at June 30, 2005 are summarized as follows:

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	\$ 811,709	\$1,329,723
Other Governmental	471,258	
Joint Resolutions	179,873	
Capital Project	<u>678,592</u>	<u>811,709</u>
Total	<u>\$2,141,432</u>	<u>\$2,141,432</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 and construction in progress are not subject to depreciation:

	Balance June 2004	Additions (Retirements)	Balance June 2005
Governmental Activities:			
Capital asset, not being depreciated:			
Land	\$ 10,520,725	\$ 89,099	\$ 10,609,824
Construction in progress	<u>552,959</u>	<u>(361,271)</u>	<u>191,688</u>
Total capital assets not being depreciated	<u>11,073,684</u>	<u>(272,172)</u>	<u>10,801,512</u>
Capital assets, being depreciated:			
Buildings and building improvements	12,753,637	3,640,010	16,393,647
Site improvements	893,742	64,838	958,580
Infrastructure	3,907,285	736,798	4,644,083
Equipment	840,584	(134,907)	705,677
Vehicles	<u>5,208,051</u>	<u>384,483</u>	<u>5,592,534</u>
Total capital assets being depreciated	<u>23,603,299</u>	<u>4,691,222</u>	<u>28,294,521</u>
Less accumulated depreciation for:			
Buildings and building improvements	3,750,608	(59,287)	3,691,321
Site improvements	679,749	159,549	839,298
Infrastructure	1,254,443	390,728	1,645,171
Equipment	706,309	(93,302)	613,007
Vehicles	<u>3,892,828</u>	<u>(55,979)</u>	<u>3,836,849</u>
Total accumulated depreciation	<u>10,283,937</u>	<u>341,709</u>	<u>10,625,646</u>
Total capital assets being depreciated, net	<u>13,319,362</u>	<u>4,349,513</u>	<u>17,668,875</u>
Governmental activities capital assets, net	<u>\$ 24,393,046</u>	<u>\$ 4,077,341</u>	<u>\$ 28,470,387</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Business Type Activity:

Capital asset, not being depreciated:			
Land	\$ 444,367	-	\$ 444,367
Capital assets, being depreciated:			
Buildings and building improvements	5,500,000	33,562	5,533,562
Equipment	261,650	-	261,650
Vehicles	117,180	-	117,180
Total capital assets being depreciated	<u>5,878,830</u>	<u>33,562</u>	<u>5,912,392</u>
Less accumulated depreciation for:			
Buildings and building improvements	440,000	113,356	553,356
Equipment	142,769	37,381	180,150
Vehicles	11,718	11,718	23,436
Total accumulated depreciation	<u>594,487</u>	<u>162,455</u>	<u>756,942</u>
Total capital assets being depreciated, net	<u>5,284,343</u>	<u>(128,893)</u>	<u>5,155,450</u>
Business Type Activity Capital assets, net	<u>5,728,710</u>	<u>(128,893)</u>	<u>5,599,817</u>
Total Municipality Capital assets, net	<u>\$ 30,121,756</u>	<u>\$ 3,948,448</u>	<u>\$ 34,070,204</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 collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

CRIM, a payable to the CRIM is recorded at June 30. A receivable of \$48,808 is reported as of June 30, 2005.

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, 2005, the related unpaid property tax advances presented in the statement of net assets amounted to \$1,098,045 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 2004-05 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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 7. DEFERRED REVENUES

a. **Municipal License Tax** – The deferred revenues of \$616,711 in the general fund relates to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

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

Program Description

Section 8 Housing Choice Vouchers	\$ 188,944
COPS	344,654
HOPWA	6,207
Title III	37,802
Federal Agriculture	19,601
FEMA	<u>409,474</u>
Total	<u>\$1,006,682</u>

NOTE 8. LONG TERM DEBT

Long-term liability activity for the year ended June 30, 2005, was as follows:

GOVERNMENTAL FUND	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due within One year
Bonds payable	\$2,653,000	\$1,995,000	\$ 662,000	\$4,586,000	\$ 194,000
Notes payable	440,000		140,000	300,000	15,000
Advances from CRIM	1,123,153		25,108	1,098,045	15,886
Loan PR Treasury Dept.	71,615		12,138	59,477	12,138
US Dep. of Agriculture	<u>1,158,117</u>			<u>1,158,117</u>	-
	5,445,885			7,201,639	<u>237,024</u>
Compensated absences	<u>1,228,612</u>	329,226		<u>1,557,838</u>	<u>173,044</u>
	<u>\$6,674,497</u>			<u>\$8,759,477</u>	<u>\$410,068</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 issued new bonds in the amount of \$1,995,000. Bonds payable outstanding at June 30, 2005 are as follows:

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

Bonds payable from the ad valorem property tax of 1.67% which is restricted for debt service fund:

	<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%	\$ 1,245,000
\$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%	86,000
\$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%	1,260,000
\$470,000 - 2004 serial bonds due in annual installments of \$10,000 to \$30,000, through July 1, 2029; with interest ranging from 3.27% to 5.0%	470,000
\$715,000 - 2005 serial bonds due in annual installments of \$90,000 to \$125,000, through July 1, 2011; with interest ranging from 3.27% to 5.0%	715,000
Bonds payable from the General Fund:	
\$305,000 - 2004 serial bonds due in annual installments of \$25,000 to \$40,000, through July 1, 2014; with interest at 5.0%	305,000
\$505,000 - 2004 serial bonds due in annual installments of \$10,000 to \$40,000, through July 1, 2030; with interest at 5.0%	<u>505,000</u>
Total bonds payable	<u>\$4,586,000</u>

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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, 2005 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, 2016; with interest at 8.0% payable from operational fund	<u>300,000</u>
Total bonds and notes payable	<u>\$ 4,886,000</u>

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

Year Ending June 30,	Principal	Interest
2006	\$ 209,000	\$ 236,841
2007	225,000	269,299
2008	237,000	256,841
2009	255,000	243,133
2010	240,000	228,371
There after	<u>3,720,000</u>	<u>2,126,735</u>
Total	<u>\$ 4,886,000</u>	<u>\$3,361,220</u>

Advances from- CRIM'- This amount represents the balance owed to CRIM at June 30, 2005 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 \$1,557,838 of accrued sick leave benefits, accrued vacation benefits, Christmas bonus and related taxes, 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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

payment of interest at 4.875%. A balance of \$352,960 of accrued interest payable is reported as of June 30, 2005.

NOTE 9. PENSION PLAN

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

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

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

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, 2005 amounted to \$262,293.

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be

invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees) or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2005, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, 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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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, 2005, amounted to \$84,925. 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 has commitments at June 30, 2005 the amount of \$ 2,206,732 for the construction of the Convention Center.

NOTE 12. CONTINGENCIES

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

NOTE 13. SUBSEQUENT EVENTS

No subsequent event is reported after June 30, 2005.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were required to convert June 30, 2004 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 capitalization of infrastructure, buildings and correction of estimated asset valuations.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		Positive(Negative)
RESOURCES (inflows):				
Property Taxes	\$ 1,733,672	\$ 1,733,672	\$ 1,810,968	\$ 77,296
Volume of Business Taxes	1,000,000	1,000,000	971,151	(28,849)
Government of P.R. Contributions	4,354,523	4,354,523	4,339,962	(14,561)
Contributions in lieu of taxes	1,435,848	1,435,848	1,174,829	(261,019)
Construction Tax	350,000	350,000	399,853	49,853
Rent	78,000	78,000	65,702	(12,298)
Interest	150,000	150,000	167,053	17,053
Other	351,000	449,629	379,425	(70,204)
	<u>9,453,043</u>	<u>9,551,672</u>	<u>9,308,943</u>	<u>(242,729)</u>
Amounts available for appropriations				
CHARGES TO APPROPRIATIONS (out flows):				
Municipal Council	116,803	116,803	108,638	8,165
Mayor office	636,171	603,087	595,879	7,208
Finance	3,155,912	3,593,632	3,368,841	224,791
Public work	1,962,924	2,048,434	2,021,433	27,001
Health	458,332	458,332	458,332	-
Civil Defence	314,948	235,913	227,119	8,794
Municipal Police	429,195	205,879	198,473	7,406
Personnel	147,137	97,936	96,582	1,354
Sports and recreation	318,069	292,438	287,532	4,906
Sanitation	1,032,784	1,084,339	1,070,526	13,813
Elderly Centers	142,515	105,412	101,239	4,173
Municipal Secretary	84,046	84,046	84,046	-
Public Relations	172,743	220,120	217,131	2,989
Internal Auditor	34,337	34,337	34,337	-
Purchases Department	95,839	92,474	92,047	427
Planning and Development	27,814	20,531	19,300	1,231
Vice-Mayor	65,143	64,643	64,598	45
Historical Turistic Center of Cibuco	258,331	193,316	191,579	1,737
Other	-	-	-	-
	<u>9,453,043</u>	<u>9,551,672</u>	<u>9,237,632</u>	<u>314,040</u>
Total charges to appropriations				
Excess (deficiency) resources over charges	\$ -	\$ -	\$ 71,311	\$ 71,311

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET Positive(Negative)
	<u>ORIGINAL</u>	<u>FINAL</u>		
RESOURCES (inflows):				
Property Taxes	\$ 487,575	\$ 487,575	\$ 271,409	\$ (216,166)
Interest	-	-	17,656	17,656
Other	-	-	-	-
Amounts available for appropriations	<u>487,575</u>	<u>487,575</u>	<u>289,065</u>	<u>(198,510)</u>
 CHARGES TO APPROPRIATIONS (out flows):				
Long term loan amortization	185,000	185,000	187,000	(2,000)
Interest on long term debt	183,733	183,733	168,998	14,735
Reserve / CAE liquidation 2001-02	57,118	57,118	-	57,118
Transfer of interest earned to General Fund	-	-	14,798	(14,798)
Other	-	-	-	-
Total charges to appropriations	<u>425,851</u>	<u>425,851</u>	<u>370,796</u>	<u>55,055</u>
Excess (deficiency) resources over charges	<u>\$ 61,724</u>	<u>\$ 61,724</u>	<u>\$ (81,731)</u>	<u>\$ (143,455)</u>

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/PASS THROUGH GRANTOR <u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>2005 EXPENDITURES</u>	<u>2004 EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Housing Choise Voucher	14.871	MP	\$ 691,366	\$ 622,051
Indirect Program:				
Passed through P.R. Office of Municipal Affairs				
State Block Grant Program (SBGP)	14.228	MP	1,379,385	715,804
Passed through San Juan Municipality				
Housing Opportunities for Persons with Aids (HOPWA)	14.241		<u>7,500</u>	<u>19,283</u>
Total US Department of Housing and Urban Development			<u>2,078,251</u>	<u>1,357,138</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through P.R. Elderly Commission				
Title III, Part C, Nutrition Services	93.045		<u>156,936</u>	<u>132,282</u>
US DEPARTMENT OF HOMELAND SECURITY				
Direct Program:				
Public Assistance Grants	97.036		<u>124,936</u>	<u>49,355</u>
US DEPARTMENT OF JUSTICE				
Direct Program:				
Public Safety Partnership and Community Policing Grants (Cops)	16.710		<u>-</u>	<u>94,024</u>
US DEPARTMENT OF AGRICULTURE				
Passed through Caguas Area Office				
Rural Economic Development Loans and Grants				
Federal Agriculture	10.854		<u>41,977</u>	<u>26,554</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 2,402,100</u>	<u>\$ 1,659,353</u>

MP = Major Program

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005**

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

Phone: 787-784-2255
Fax: 787-784-2250
Email: jmelecio@hotmail.com

G - 23, AMIREVA ST. BOULEVARD AVE., LEVITTOWN, P.R. 00949

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

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

We have audited the financial statements of the Municipality of Corozal as of and for the year ended June 30, 2005, and have issued our report thereon dated December 12, 2005. We conducted our 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing and opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion. The results of our 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 Section II.

Internal Control Over Financial Reporting

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

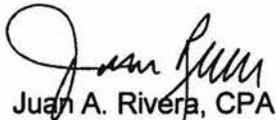
However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our 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 in federal award are described in the accompanying schedule of findings and questioned costs Section II and also we have reported to the management of Municipality of Corozal those reportable condition that affect the internal control of the Municipality operations in a separate letter.

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

Mailing Address Box 757, Dorado, PR 00646

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. Our 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, we 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 and not is intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214

December 12, 2005
Toa Baja, Puerto Rico



Stamp NO. 2105587 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.


JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

Phone: 787-784-2255
Fax: 787-784-2250
Email: jrmelecio@hotmail.com

C - 23, AUREYA ST, BOULEVARD AVE., LEVITTOWN, P.R. 00949

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

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

Compliance

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Corozal compliance with those requirements and performing such others procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not include a legal determination of the Municipality of Corozal compliance with those requirements.

As described in item Section II in the accompanying schedule of findings and questioned costs, the Municipality of Corozal did not comply with requirements regarding administrative requirements that are applicable to its Section 8 Program and SBGP Program. Compliance with such requirements are necessary for the Municipality of Corozal to comply with the federal regulations.

In our 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, 2005.

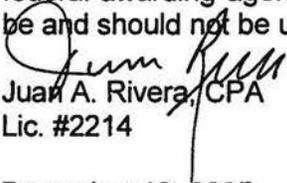
Internal Control Over Compliance

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 our audit, we 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our 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 in Section II.

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. Our 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, we 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. However, this report is not intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214

December 12, 2005
Toa Baja, Puerto Rico



NOTE: Stamp No. 2105588 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original report.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2005**

II. Federal Awards Findings and Questioned Costs

The examination of compliance with federal requirements of the Municipality of Corozal, for the year ended June 30, 2005 disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

**Section 8 Housing Voucher
CFDA No. 14.871**

Condition 05-1

The waiting list should be updated each year at least. The waiting list 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

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 05-02

During the audit we observed that the written procedures 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 must be corrected within 24 hours from the inspection and all the other cited deficiencies must be corrected within no more than 30 calendar days from the inspection or any PHA-approved extension.

Cause

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2005**

Condition 05-02 (Cont.)

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 05-3

During the audit we observed that the utility allowances table was not updated.

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.

Condition 05-4

Federal Program Office does not maintain proper accounting system to support the completed Financial Reports required by the program during the fiscal year 2004-2005.

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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2005**

Condition 05-4 (Cont.)

Recommendation

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

Condition 05-5

The Municipality did not submit the year end report voucher for payment of annual contribution and operating statement (HUD-52681).

Criteria

Code of Federal Regulation (24 CFR 982.158) requires the Municipality furnish to HUD accounts and others record, reports, documents and information at the agency required.

Cause

The Municipality did not submit information in the required report.

Effect

The Municipality is not in compliance with federal regulation.

Recommendation

The Federal Program Director should submit the report as soon as possible and avoid similar situations.

SBGP

CFDA No. 14.228

Condition 05-6

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.

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.

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2005**

Condition 05-6 (Cont.)

Effect

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

Recommendation

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

Condition 05-7

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.

Cause

There is not a monthly reconciliation of the financial information.

Effect

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

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 04-1 The administrative plan was not update and does not include all the provisions of the Section 8 Management Assessment Program (SEMAP)	Corrected
Section 8 CFDA No. 14.855	Condition 04-2 The waiting list was not update.	Still prevail
Section 8 CFDA No. 14.855	Condition 04-3 Housing Quality Standards (HQS) correction follows up	Still prevail
Section 8 CFDA No. 14.855	Condition 04-4 The utility allowances table was not update.	Still prevail
Section 8 CFDA No. 14.855	Condition 04-5 Federal Program Office does not maintain proper accounting system to support the completed Financial Reports.	Still prevail
Section 8 CFDA No. 14.855	Condition 04-6 The Municipality did not maintain control over assigned vouchers, and also we do not observed procedures to promote the vouchers availability.	Corrected
SBGP CFDA No. 14.228	Condition 04-7 The federal program office did not realize the procedures of interviews and payroll reviews in order to comply with Davis Bacon Act.	Still prevail
SBGP CFDA No. 14.228	Condition 04-8 The SBGP program should to minimize the time elapsing between transfer the federal funds from agency (OCAM) and disbursement to suppliers.	Corrected
COPS CFDA No. 16.710	Condition 04-9 The federal fund received was deposited on the general fund account instead of separate bank account for the specific program as required by federal regulation.	Corrected
HOPWA CFDA No. 10.854	Condition 04-10 The federal funds received were deposited on the general fund bank account and not in a separate bank account for the specific program as required.	Corrected
SBGP CFDA No. 14.228	Condition 04-11 Financial information maintained in the Federal Program Office is not the same recorded in the Finance Department of the Municipality.	Still Prevail

**MUNICIPALITY OF COROZAL
COMMONWEALTH OF PUERTO RICO
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 04-12 The General Bidding process realized for the fiscal year established fixed price per ton for the purchase and service of asphalt for the municipalities streets and roads, but the majority of the contracts realized for this service used another base to establish the contracted amounts.	Corrected
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 03-3 Electronic submission of Form 50058 was not observed on some files.	Corrected
Section 8 CFDA No. 14.855	Condition 03-4 No quality control inspections were performed.	Still prevail
Section 8 CFDA No. 14.855	Condition 03-7 The Municipality does not encourage participation by owners of unit located outside pockets of poverty concentrations.	Corrected



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

Hon. Roberto Hernández Vélez
Alcalde

CORRECTIVE ACTION PLAN

December 23, 2005.

Cognizant or Oversight Agency for Audit:

The Municipality of Corozal respectfully submits the following corrective action plan for the year ended on June 30, 2005.

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

Audit period: Fiscal year ended in June 30, 2005.

The findings from the June 30, 2005 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 05-1: Housing Vouchers Program – CFDA 14.871

Reportable Condition: See Condition 05-1

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.

Action Taken:

The Municipality is following the procedures of selecting from waiting list. The waiting list is being updated. The Federal Programs Office is sending letters to customers, so they can bring information to update their information on the file. The Office has sent letters to 90% of the customers that are on file. The Municipality will make a public announcement on local newspapers.

Finding 05-2: Housing Vouchers Program – CFDA 14.871

Reportable Condition: See Condition 05-2

Recommendation:

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

Action Taken:

In a meeting with the Program Inspector, we discussed and gave instructions that each inspection should be signed by the proper personnel. We also discussed that any deficiency should be corrected within a term of 24 hours. And in case of an unsatisfactory inspection, a 30 labor day's term is conceded to correct any deficiency.

Finding 05-3: Housing Vouchers Program – CFDA 14.871

Reportable Condition: See Condition 05-3

Recommendation:

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

Action Taken:

The personnel of the Federal Office received instructions to complete and attach the utility table in the file of each customer. In addition, they are requesting additional documents, such as Electric and Water bills from the last 6 months, to update the Utilities' Study.

9 Calle Cervantes, Corozal, Puerto Rico 00783-1905 / Tel. (787)859-3060 / 859-2268
E-mail: corozal@coqui.net

“Corozal brilla en sus 200 años. ¡Te invitamos a brillar con nosotros!”

Finding 05-4: Housing Vouchers Program – CFDA 14.871

Reportable Condition: See Condition 05-4

Recommendation:

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

Action Taken:

The Municipality hired an Accountant to establish proper accounting system and maintain all the financial information in order to comply with federal regulations

Finding 05-5: Housing Vouchers Program – CFDA 14.871

Reportable Condition: See Condition 05-5

Recommendation:

The Federal Program Director should submit the report as soon possible and avoid similar situations.

Action Taken:

The Federal Program Director and the Accountant are preparing the Year End Voucher Report.

Finding 05-6: SBGP Program – CFDA 14.228

Reportable Condition: See Condition 05-6

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 received instructions to comply with the procedure established by Federal Regulations.

9 Calle Cervantes, Corozal, Puerto Rico 00783-1905 / Tel. (787)859-3060 / 859-2268
E-mail: corozal@coqui.net

“Corozal brilla en sus 200 años. ¡Te invitamos a brillar con nosotros!”

Finding 05-7: SBGP Program – CFDA 14.228

Reportable Condition: See Condition 05-7

Recommendation:

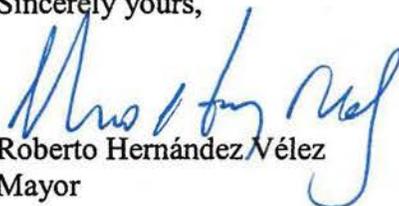
The Federal Program Office should establish procedures in conjunction with Finance Department in order to reconcile the financial information in a monthly basis.

Action Taken:

Instructions were given to the Federal Program Accountant to reconcile the financial information with the Financial Office on a monthly basis.

For further information, please contact Mrs. Yanira Hernández, Federal Program Director, at (787) 859-3060.

Sincerely yours,


Roberto Hernández Nélez
Mayor