

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

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

OFICINA DEL COMISIONADO
DE LOS MUNICIPIOS

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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PART I - FINANCIAL SECTION

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Services Division

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of Cataño
Cataño, 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 Cataño, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 2 to the basic financial statements, the Municipality of Cataño has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of June 30, 2003.

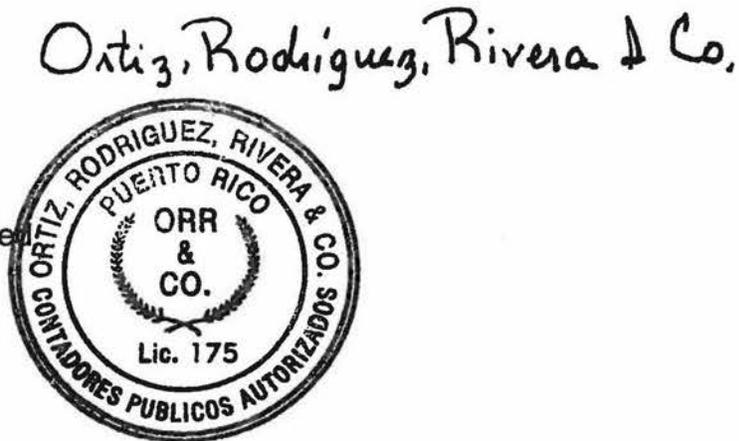
The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2003 on our consideration of the Municipality's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

San Juan, Puerto Rico
December 9, 2003

The stamp 1908309 was affixed
to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets increased by \$3,498,280.
- Total net assets amounted to \$110,001,184
- The general fund balance increased \$8,135,418.
- Capital expenditures amounted to \$4,853,442.

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's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

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 only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable 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.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], 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, 2002, the Municipality commenced the prospective and retroactive reporting of infrastructure assets. The Municipality has 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 net assets totaled \$110,001,184 million at the end of 2003, compared to \$106,502,904 million at the end of the previous year.

The largest portion of the Municipality's net assets consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. 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 represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

Condensed Statement of Net Assets June 30, 2003

	<u>2003</u>
Current assets	\$ 76,532,190
Capital assets	<u>108,337,528</u>
Total assets	<u>184,869,718</u>
Current liabilities	19,413,432
Noncurrent liabilities	<u>55,455,102</u>
Total liabilities	<u>74,868,534</u>
Invested in capital assets, net of related debt	32,454,981
Restricted	37,267,642
Unrestricted	<u>40,278,561</u>
Total net assets	<u>\$ 110,001,184</u>

Changes in Net Assets

The Municipality's net assets increased by \$3,498,280. Approximately 17 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 63 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Condensed Statement of Activities June 30, 2003

Program revenues	
Charges for services	\$ 465,328
Operating grants and contributions	1,299,055
Licenses and permits	875,656
General revenues	
Property taxes	20,932,595
Municipal license tax	9,859,657
Grants and contributions not restricted to specific programs	6,962,418
Miscellaneous	<u>8,469,895</u>
Total revenues	<u>48,864,604</u>
Expenses	
General government	19,982,703
Public safety	3,524,603
Public works	7,145,041
Culture and recreation	2,929,271
Education	677,495
Health and welfare	7,996,437
Interest on long-term debt	<u>3,110,774</u>
Total expenses	<u>45,366,324</u>
Change in net assets	3,498,280
Net assets, beginning of year	<u>106,502,904</u>
Net assets, end of year	<u>\$ 110,001,184</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable 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 \$59,624,070 an increase of \$2,588,327 in comparison with the prior year. There are reservations of fund balance amounting to \$37,484,880. This is the fund balance that is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$217,238), 2) to pay debt service (\$16,632,478) and 3) for capital projects (\$20,635,164).

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a balance of \$22,356,428. The fund balance increased by \$8,135,418 during fiscal year 2003.

Key factors in the increase of the fund balance in the general fund are as follows:

- Increase of \$3,680,324 in revenues.
- Net operating transfers of \$4,959,346 to the debt service fund.

Increase in revenues was mainly due to an increase of \$2,298,568 in property taxes. This increase can be attributed to the following conditions:

- Construction of new commercial property (mainly warehouses) in fiscal year 2003 and 2002.
- The Municipal Revenues Collection Center (CRIM) started to reassess the value of commercial and private property two years ago. The effect of such reassessment positively impacted the property taxes collected during fiscal year 2003.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

The most significant variance between budget and actual results were the following:

- Total revenues collected or received during fiscal year 2003 were \$2,716,301 higher than the budgeted amount.
- Municipal License Taxes collected amounted to \$9,859,657. This represents a positive variance of \$1,282,274 or 15% more than the budgeted amount. The two main reasons for the positive variance are the following: an aggressive collection strategy on uncollected amounts from

previous years and improved general economic conditions helped some of the tax payers to increase their sales volume for fiscal year 2003.

- Contributions received from the State Government were \$936,759 more than the budgeted amount.
- Other revenues collected amounted to \$456,333 versus the \$33,800 budgeted amount. This represents a positive variance of \$422,533.
- Expenses for General Governmental activities were \$15,738,977. This represents a positive variance of \$1,035,824.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$123,641,839 net of accumulated depreciation of \$15,304,311 million, leaving a net book value of \$108,337,528. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 2% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$4,853,442 for the year. Depreciation charges for the year totaled \$3,741,258 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$20,635,164 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

Based on the current total net assessed valuation of real and personal property in Cataño provided by the Municipal Revenues Collection Center ("CRIM") of approximately \$420,389,040 million, the Legal Margin of Cataño as of November 17, 2003, was \$42 million. Cataño's Available Legal Margin as of November 17, 2003, was calculated to equal \$5,782,000 after subtracting from the Legal Margin the amount of \$52,850,000 in outstanding general obligation debt as of June 30, 2003, and adding to the Legal Margin the excess amount in its Redemption Fund of \$16,632,000 as of June 30, 2003.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such 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 to maturity 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

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

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

- Legal expenses for the Office of the Mayor for fiscal year 2004 decreased by \$300,000.
- The amount budgeted for security services decreased by \$550,000. The amount that was budgeted covers the expense for the first six months of the fiscal year. During fiscal year 2004, the Municipality will relocate funds amounting to \$550,000 from other dependencies to cover the final six months of the fiscal year.
- Budgeted expenses for the Finance Department increased by approximately \$600,000. The increase is primarily due to the fact that new employees were hired and some employees were offered permanent positions. This development increases the salaries and all employee benefits accounts. Also, the Finance Department had to increase its budget for professional services to account for the implementation of GASB 34.
- The Federal Affairs Office budget increased by 145% or \$163,000. The increase is mainly due to the fact that five employees were offered permanent positions. This development increases the budgeted salaries and all employee benefits accounts.

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 on the 4th floor of the Town Hall, Cataño, Puerto Rico.

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

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Note 2)	\$ 34,686,027
Cash with fiscal agent (Note 2)	39,782,275
Interest receivable	83,506
Due from other agencies (Note 8)	1,980,382
Capital assets, net (Note 10)	<u>108,337,528</u>
 Total assets	 <u>\$ 184,869,718</u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Account payable and accrued liabilities	\$ 2,250,956
Due to other agencies (Note 11)	2,298,723
Deferred revenues (Note 12):	
Municipal license tax	9,088,133
Federal government	220,005
Accrued interest	3,110,774
Noncurrent liabilities (Note 14):	
Due within one year	2,444,841
Due in more than one year	55,455,102
Total liabilities	<u>74,868,534</u>
Net Assets	
Investment in capital assets, net of related debt	32,454,981
Restricted for:	
Debt service	16,632,478
Capital projects	20,635,164
Unrestricted	40,278,561
Total net assets	<u>110,001,184</u>
 Total liabilities and net assets	 <u>\$ 184,869,718</u>

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Licenses and Permits</u>	<u>Operating Grants and Contributions</u>		<u>Primary Governmental Activities</u>
Primary Government:						
General government	\$ 19,982,703	\$ 465,328	\$ 875,656	\$ -	\$ -	\$ (18,641,719)
Public safety	3,524,603					(3,524,603)
Public works	7,145,041					(7,145,041)
Culture and recreation	2,929,271					(2,929,271)
Health and welfare	7,996,437			1,299,055		(6,697,382)
Education	677,495					(677,495)
Interest on long-term debt	3,110,774					(3,110,774)
Total	\$ 45,366,324	\$ 465,328	\$ 875,656	\$ 1,299,055	\$ -	(42,726,285)
General revenues:						
Property taxes						20,932,595
Municipal license tax						9,859,657
Grants and contributions not restricted to specific programs						6,962,418
Interest, fines and penalties						1,327,672
Miscellaneous						7,142,223
Total general revenues						46,224,565
Change in net assets						3,498,280
Net assets at beginning of year						106,502,904
Net assets at end of year						\$ 110,001,184

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2003**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 33,570,411	\$ -	\$ 883,462	\$ 232,154	\$ 34,686,027
Cash with fiscal agent (Note 2)	9,620	19,682,781	20,083,395	6,479	39,782,275
Interest receivable	83,506				83,506
Due from other agencies (Note 8)	1,887,872			92,510	1,980,382
Total assets	<u>\$ 35,551,409</u>	<u>\$ 19,682,781</u>	<u>\$ 20,966,857</u>	<u>\$ 331,143</u>	<u>\$ 76,532,190</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
BALANCE SHEET-GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2003**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Account payable and accrued liabilities	\$ 1,808,125	\$ -	\$ 331,693	\$ 111,138	\$ 2,250,956
Due to other agencies (Note 11)	2,298,723				2,298,723
General obligations (Note 14):					
Bonds		1,690,000			1,690,000
Interest		1,360,303			1,360,303
Deferred revenues: (Note 12)					
Municipal license tax	9,088,133				9,088,133
Federal government				220,005	220,005
Total liabilities	<u>13,194,981</u>	<u>3,050,303</u>	<u>331,693</u>	<u>331,143</u>	<u>16,908,120</u>
Fund Balances					
Reserved for:					
Encumbrances	217,238				217,238
Debt service		16,632,478			16,632,478
Capital projects			20,635,164		20,635,164
Unreserved fund balance	22,139,190				22,139,190
Total fund balance	<u>22,356,428</u>	<u>16,632,478</u>	<u>20,635,164</u>	<u>-</u>	<u>59,624,070</u>
 Total liabilities and fund balance	 <u>\$35,551,409</u>	 <u>\$19,682,781</u>	 <u>\$20,966,857</u>	 <u>\$ 331,143</u>	 <u>\$ 76,532,190</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2003**

Total fund balances - governmental funds	\$ 59,624,070
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	108,337,528
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(<u>57,960,414</u>)
Net assets of governmental activities	\$ <u>110,001,184</u>

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 14,587,454	\$ 6,345,141	\$ -	\$ -	\$ 20,932,595
Municipal license taxes (Note 7)	9,850,657				9,850,657
Licenses and permits	875,656				875,656
Charges for service and rents	465,328				465,328
Intergovernmental revenues (Note 13):					
Federal grants and contributions				1,299,055	1,299,055
State contributions	5,108,920		1,853,498		6,962,418
Interest, fines, and penalties	1,327,672				1,327,672
Other revenues	7,142,223				7,142,223
Total revenues	<u>39,366,910</u>	<u>6,345,141</u>	<u>1,853,498</u>	<u>1,299,055</u>	<u>48,864,604</u>
EXPENDITURES					
Current:					
General government	16,275,496				16,275,496
Public safety	3,362,221				3,362,221
Public works	6,235,970			681,688	6,917,658
Culture and recreation	2,493,812				2,493,812
Health and welfare	7,225,801			617,367	7,843,168
Education	594,540				594,540
Capital outlays			4,653,442		4,653,442
Debt service:					
Principal retirement		1,773,107			1,773,107
Interest and other		3,207,833			3,207,833
Total expenditures	<u>36,187,840</u>	<u>4,980,940</u>	<u>4,653,442</u>	<u>1,299,055</u>	<u>47,121,277</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,179,070</u>	<u>1,364,201</u>	<u>(2,799,944)</u>	<u>-</u>	<u>1,743,327</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds (Note 14)			845,000		845,000
Transfers in	5,480,376	524,028			6,004,404
Transfers out	(524,028)	(181,916)	(5,298,460)		(6,004,404)
Total other financing sources (uses)	<u>4,956,348</u>	<u>342,112</u>	<u>(4,453,460)</u>	<u>-</u>	<u>845,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>8,135,418</u>	<u>1,706,313</u>	<u>(7,253,404)</u>	<u>-</u>	<u>2,588,327</u>
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 14)	<u>14,221,010</u>	<u>14,926,165</u>	<u>27,888,568</u>	<u>-</u>	<u>57,035,743</u>
FUND BALANCE AT END OF YEAR	<u>\$ 22,356,428</u>	<u>\$ 16,632,478</u>	<u>\$ 20,635,164</u>	<u>\$ -</u>	<u>\$ 59,624,070</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds \$2,588,327

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

• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	5,527,355
• Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(3,741,258)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(845,000)
• Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities.	1,773,107
• Change in accrued interest expense which does not require the use of current financial resources.	97,059
• Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(<u>1,901,310</u>)
Changes in net assets of governmental activities	<u>\$3,498,280</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 13,334,545	\$ 13,577,643	\$ 14,341,806	\$ 764,163	\$ 3,754,189	\$ 4,921,645	\$ 6,345,141	\$ 1,423,496
Municipal license taxes	8,577,383	8,577,383	9,859,657	1,282,274				
Licenses and permits	751,000	751,000	875,656	124,656				
Charges for services and rent	280,800	280,000	465,328	185,328				
Intergovernmental revenues:								
State contributions	4,175,161	4,172,161	5,108,920	936,759				
Interest, fines and penalties	2,509,000	2,509,000	1,509,588	(999,412)				
Other revenues	30,000	33,800	456,333	422,533				
Total revenues	29,657,889	29,900,987	32,617,288	2,716,301	3,754,189	4,921,645	6,345,141	1,423,496
EXPENDITURES								
Current:								
General government	11,814,572	16,784,801	15,748,977	1,035,824				
Public safety	3,490,696	3,708,913	3,362,222	346,691				
Public works	4,460,592	6,450,278	6,235,970	214,308				
Culture and recreation	2,398,379	2,623,917	2,493,812	130,105				
Health and welfare	6,831,887	5,204,150	5,100,031	104,119				
Education	661,763	631,574	594,540	37,034				
Debt service:								
Principal					1,545,000	1,545,000	1,773,107	228,107
Interest					2,209,189	3,376,645	3,207,833	(168,812)
Total expenditures	29,657,889	35,403,633	33,535,552	1,868,081	3,754,189	4,921,645	4,980,940	59,295
OTHER FINANCING SOURCES								
Reprogramming funds		5,502,646	5,502,646	-				
Excess of revenues over expenditures	\$ -	\$ -	\$ 4,584,382	\$ 4,584,382	\$ -	\$ -	\$ 1,364,201	\$ 1,364,201

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. ORGANIZATION

The Municipality of Cataño, Puerto Rico (Municipality) was founded in 1927. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For fiscal year ended June 30, 2003, the Municipality implemented GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The 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.
- **Government - Wide Financial Statements** - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Program Activities** - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

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 appoint a voting

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has no component units.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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.

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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

2) Debt Service Fund

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

3) Capital Project Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section 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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

d. Cash, Cash with Fiscal Agent and Certificates of Deposits

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

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

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

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

g. Reservation of Fund Balance

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

1) 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.

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$460,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$668,000 for workers' compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

i. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
39	Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statements No. 14.	2003-04
40	Deposit and Investment Risk Disclosures	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05

The impact of these statements on the Municipality's financial statement has not yet been determined.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

3. 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 and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2003 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess of revenues over expenditures - budgetary basis	\$4,584,382	\$1,364,201
Entity differences:		
Non-budgeted funds	8,452,818	
Non-budgeted transfers in		524,028
Non-budgeted transfers-out		(181,916)
Reprogramming of funds	(5,502,646)	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund	Debt Service Fund
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	\$ 572,454	\$ -
Current year encumbrances recorded as expenditures for budgetary basis	(217,238)	
Basis of accounting differences:		
Net change in receivables	245,648	-
Excess of revenues over expenditures - GAAP basis	\$8,135,418	\$1,706,313

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$58 million difference are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Bonds payable	\$44,160,000
Note payable	7,000,166
Compensated absences	4,308,140
Accrued interest payable	1,750,471
Claims and judgements	<u>741,637</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$57,960,414</u>

5. DEPOSITS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral is 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 balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2003. Risk categories are described as follows:

Category 1: Deposit is insured or collateralized with securities held by the Secretary of the Treasury's agents in the Municipality's name.

Category 2: Deposit is collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.

Category 3: Deposit is uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The Municipality's bank balances in commercial banks of approximately \$33.6 million in the governmental activities were fully collateralized at June 30, 2003 (Category 1). In the capital projects fund and other governmental funds there were deposits with commercial banks of approximately \$907,000 and \$265,000, respectively, that were fully collateralized.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The deposits of GDB of approximately \$20.0 million that are restricted principally for capital projects, and the \$19.7 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks (Category 3).

The Municipality maintains its deposits in four (4) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.08% for real property and 6.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discounts made by state to taxpayer	< .20% >	< .20% >
	<u>8.08%</u>	<u>6.08%</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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 Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

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 ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$7.0 million. This amount will be repaid through advances from property taxes (refer to Note 14).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2002-03, but not the final settlement as the six months period after fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2003, the amount received in advances from CRIM exceeded the amount collected from taxpayers and charges by CRIM for the same period by approximately \$266,000. Such amount is presented as intergovernmental payable in the general fund in the basic financial statements. (Refer to Note 12).

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2003. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Cataño, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Cataño, are as follows:

Financial institutions	=	1.5%
Savings and loans associations	=	1.25%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$9.1 million, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$1,643,224
Municipal Revenue Collection Center	245,648
Other governmental funds	<u>92,510</u>
Total	<u>\$1,980,382</u>

9. INTERFUND TRANSACTIONS

Interfund Transfers:

Interfund transfers for the year ended June 30, 2003 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Project	General	\$5,298,460
Debt Service	General	524,028
General	Debt Service	<u>181,916</u>
		<u>\$6,004,404</u>

The transfer from the capital projects fund to the general fund of approximately \$5.3 million represents monies received for construction of capital improvements.

Remaining transfers are used to (1) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due and (2) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Balance July 1, 2002 (As Restated)	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 7,580,887	\$ 1,576,000	\$ -	\$ 9,156,887
Construction in progress	59,533,542	2,853,571	32,048,077	30,339,036
Total capital assets, not being depreciated	<u>67,114,429</u>	<u>4,429,571</u>	<u>32,048,077</u>	<u>39,495,923</u>
Capital assets, being depreciated:				
Buildings and building improvements	29,200,916	2,845,081		32,045,997
Site improvements	3,403,993	29,466,469		32,870,462
Intangibles	105,497	17,064		122,561
Vehicles and equipment	4,382,126	679,302		5,061,428
Infrastructure	13,907,524	137,945		14,045,469
Total capital assets, being depreciated	<u>51,000,056</u>	<u>33,145,861</u>	<u>-</u>	<u>84,145,917</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,961,762	1,053,624		7,015,386
Site improvements	1,429,199	1,408,716		2,837,915
Intangibles	21,099	24,512		45,611
Vehicles and equipment	2,493,619	903,269		3,396,888
Infrastructure	1,657,375	351,137		2,008,512
Total accumulated depreciation	<u>11,563,054</u>	<u>3,741,258</u>	<u>-</u>	<u>15,304,312</u>
Total capital assets, being depreciated, net	<u>39,437,002</u>	<u>29,404,603</u>	<u>-</u>	<u>68,841,605</u>
Governmental activities capital assets, net	<u>\$ 106,551,431</u>	<u>\$ 33,834,174</u>	<u>\$ 32,048,077</u>	<u>\$ 108,337,528</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

General government	\$2,679,810
Public safety	162,382
Public works	227,383
Culture and recreation	435,459
Health and welfare	153,269
Education	<u>82,955</u>
 Total	 <u>\$3,741,258</u>

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2003 are as follows:

Puerto Rico Electric Power Authority	\$1,406,789
Municipal Revenues Collection Center	688,370
Retirement System Administration	184,234
Puerto Rico Water and Sewer Authority	12,407
Puerto Rico Labor Department	6,562
General Services Administration	<u>361</u>
 Total	 <u>\$2,298,723</u>

12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$9.1 million in the general fund related to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. These were related to various federal programs/grants, which are included within other governmental funds.

13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

14. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2003 are as follows:

Bonds

\$14,520,000 series of 1995, payable in annual installments of \$315,000 to \$1,370,000 until 2014, interest from 6.5% to 7.706%.	\$10,560,000
\$18,825,000 series of 1998, payable in annual installments of \$260,000 to \$1,635,000 until July 1, 2023, interest at 8%.	16,930,000
\$18,825,000 series of 1998, payable in annual installments of \$260,000 to \$1,635,000 until July 1, 2023, interest at 8%.	10,825,000
\$7,240,000 series of 2001, payable in annual installments of \$195,000 to \$715,000 until July 1, 2019, interests at 8%.	6,835,000
\$845,000 series of 2003, payable in annual installments of \$145,000 to \$190,000 until July 1, 2007, interests at 6.5%.	<u>700,000</u>
Total bonds payable	<u>\$45,850,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Note Payable

Note payable of approximately \$7.0 million represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$103,920 plus interest rate of 6.25%.

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2003, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,830,000	\$ 2,683,009	\$ 97,864	\$ 427,765
2005	1,970,000	2,590,287	103,920	421,710
2006	2,125,000	1,982,106	110,350	415,280
2007	2,290,000	2,369,678	117,178	408,452
2008	2,265,000	2,240,548	124,428	401,201
2009-2013	14,365,000	8,968,886	747,605	1,880,542
2014-2018	14,450,000	4,487,829	1,009,345	1,618,802
2019-2023	6,555,000	1,031,285	1,362,719	1,265,428
2024-2028	-	-	1,839,814	798,335
2029-2033	-	-	1,486,943	176,934
	<u>\$ 45,850,000</u>	<u>\$ 26,353,628</u>	<u>\$ 7,000,166</u>	<u>\$ 7,814,449</u>

As described in Note 6, the Municipality levies an annual special tax of 1.48% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Other Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Bonds payable	\$48,125,000	\$ 845,000	\$1,690,000	\$ (1,430,000)	\$45,850,000	\$ 1,830,000
Note payable	7,092,328		92,162		7,000,166	97,864
Total long-term debt	<u>55,217,328</u>	<u>845,000</u>	<u>1,782,162</u>	<u>(1,430,000)</u>	<u>52,850,166</u>	<u>1,927,864</u>
Claims and judgements	485,000	256,637			741,637	
Compensated absences	<u>2,758,170</u>	<u>1,901,310</u>	<u>351,340</u>		<u>4,308,140</u>	<u>516,977</u>
Total other liabilities	<u>3,243,170</u>	<u>2,157,947</u>	<u>351,340</u>	<u>-</u>	<u>5,049,777</u>	<u>516,977</u>
Total noncurrent liabilities	<u>\$58,460,498</u>	<u>\$3,002,947</u>	<u>\$2,133,502</u>	<u>\$ (1,430,000)</u>	<u>\$57,899,943</u>	<u>\$ 2,444,841</u>

The beginning fund balance of the debt service fund has been restated to adjust principal and interest payments as due.

Beginning fund balance, as previously reported	\$17,812,662
Adjustments to recognize principal and interest payments as due	
Principal	(1,430,000)
Interest	(1,456,497)
Beginning fund balance, as restated	<u>\$14,926,165</u>

15. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January , 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. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. 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 upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn 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 employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2003 was approximately \$717,000. The Municipality's payroll for employees covered by ERS was approximately \$7.7 million. The Municipality total payroll for all employees was approximately \$14.3 million.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

16. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division 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.

17. LEASES

Leasing arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2003 was approximately \$410,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

18. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

19. COMMITMENTS

The Municipality of Cataño had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts approximately \$1.5 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/Program Title	Federal CFDA Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Pass-through State - Commissioner Office of Municipal Affairs Community Development Block Grant-State Program SBGP	14.228	\$ <u>681,688</u>
Subtotal U.S. Department of HUD		<u>681,688</u>
U.S. Department of Health and Human Services		
Pass-through the Office of Administration for Children and Families Child Care and Development Block Grant Community Service Block Grant	93.575 93.569	194,592 <u>31,963</u>
Subtotal U.S. Department of Health		<u>226,555</u>
U.S. Department of Education		
Event Start-State Educational Agencies Child and Adult Care Food Program	84.213 84.999	178,227 <u>14,933</u>
Subtotal Department of Education		<u>193,160</u>
U.S. Department of Transportation		
Public Transportation for Nonurbanized Areas	20.509	<u>19,121</u>
Subtotal U.S. Department of Transportation		<u>19,121</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Labor		
School to Work	84.278	\$ <u>178,531</u>
Subtotal U.S. Department of Labor		<u>178,531</u>
TOTAL		<u>\$1,299,055</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Cataño and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal expenditures are included within the other governmental funds column in the accompanying statement of revenues, expenditures and changes in fund balances-governmental funds.



ORTIZ, RODRIGUEZ, RIVERA & CO.

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Cataño
Cataño, Puerto Rico

We have audited the basic financial statements of the Municipality of Cataño as of and for the year ended June 30, 2003, and have issued our report thereon dated December 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Cataño's basic 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 of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

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

control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Cataño, in a separate letter dated December 9, 2003.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 9, 2003

The stamp 1908310 was affixed
to the original of this report.





ORTIZ, RODRIGUEZ, RIVERA & CO.

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Cataño
Cataño, Puerto Rico

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of 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 Municipality of Cataño's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Cataño's compliance with those requirements.

In our opinion, Municipality of Cataño complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 03-01.

Internal Control over Compliance

The management of Municipality of Cataño is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Cataño's 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 internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 9, 2003

The stamp 1908311 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the financial statements of the Municipality of Cataño.
- b. There were no reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Cataño were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Cataño express an unqualified opinion.
- f. Audit finding relation to the major federal award programs for Municipality of Cataño is reported in number 3 of this schedule.
- g. The programs tested as major programs included:

SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Cataño was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 03-1</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<u>Recommendation</u>	
	The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 00-1 The program does not comply with the cash management requirement.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 01-1 The program does not comply with the cash management requirement.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 02-1 The program does not comply with the cash management requirement.	Condition still prevails.

CORRECTIVE ACTION PLAN

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Cataño
Departamento de Finanzas



CORRECTIVE ACTION PLAN

December 13, 2003

Cognizant or Oversight Agency for Audit:

Municipality of Cataño respectfully submits the following corrective action plan for the year ended June 30, 2003

Name and address of independent public accounting firm: Ortiz, Rodriguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2003

The findings from the June 30, 2003 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

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

Finding 03-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 03-1

Recommendation

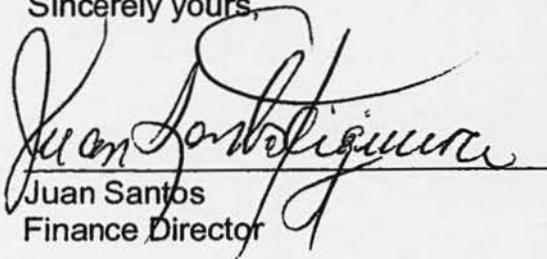
The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Action Taken

The Finance Department, in coordination with the Federal Program Department, will establish procedures, in order to minimize the time into receiving and disbursing the federal funds. In addition, the Federal Program Department will establish a cash management book, in order to correct the situation.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. Juan Santos at (787) 788-0404, extension 2421.

Sincerely yours,


Juan Santos
Finance Director



FORM **SF-SAC**
13 20-2001)U.S. DEPT. OF COMM.- Econ. and Stat. Admin.- U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates On or After January 1, 2001**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132**PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)**

1. Fiscal period ending date for this submission

Month Day Year Fiscal Period End Dates Must
06 / 30 / 2003 Be On or After January 1, 2001

2. Type of Circular A-133 audit

1 Single audit 2 Program-specific audit

3. Audit period covered

1 Annual 3 Other - Months
2 Biennial**FEDERAL
GOVERNMENT
USE ONLY**4. Date received by Federal
clearinghouse

5. Employer Identification Number (EIN)

b. Are multiple EINs covered in this report? 1 Yes 2 No

a. Auditee EIN

6 6 0 4 3 3 5 4 0

**If Part I, Item 5b = "Yes," complete Part I, Item 5c
(Complete the continuation sheet on Page 4)****6. AUDITEE INFORMATION**

a. Auditee name

MUNICIPALITY OF CATAÑO

b. Auditee address (Number and street)

PO BOX 428

City

CATAÑO

State

ZIP + 4 Code

0 0 9 6 3 -

c. Auditee contact

Name

JUAN SANTOS FIGUEROA

Title

FINANCE DIRECTOR

d. Auditee contact telephone

(787) 788 - 0404

e. Auditee contact FAX (Optional)

(787) 788 - 8060

f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name

ORTIZ, RODRIGUEZ, RIVERA & CO

b. Auditor address (Number and street)

SUITE 152 PO BOX 70250

City

SAN JUAN

State

ZIP + 4 Code

0 0 9 3 6 - 7 2 5 0

c. Auditor contact

Name

MARCO A RIVERA ZUÑIGA, CPA

Title

PARTNER

d. Auditor contact telephone

(787) 756 - 8524

e. Auditor contact FAX (Optional)

(787) 274 - 0562

f. Auditor contact E-mail (Optional)

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Date
Month Day Year
01 / 29 / 04

Printed Name/Title of certifying official

Juan Santos Figueroa/Finance Dir.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133: The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date
Month Day Year
01 / 28 / 04

Ortiz, Rodriguez, Rivera & Co. - 01 / 28 / 04

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ __ .520(b)) \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No

5. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No

7. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ __ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages

PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 1)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT STATE PROGRAM (SBGP)	\$ 681,688 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	C	03-1
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT GRANT	\$ 194,592 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .569	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY SERVICE BLOCK GRANT	\$ 31,963 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	4 .213	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EVEN START STATE EDUCATIONAL AGENCIES	\$ 178,227 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	4 .999	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 14,933 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
2	0 .509	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC TRANSPORTATION FOR NONURBANIZED AREAS	\$ 19,121 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	4 .278	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SCHOOL TO WORK	\$ 178,531 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED				\$ 1,299,055 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- | | | | |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management | K. Real property acquisition and relocation assistance | O. None |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking | L. Reporting | P. Other |
| C. Cash management | H. Period of availability of Federal funds | M. Subrecipient monitoring | |
| D. Davis - Bacon Act | I. Procurement and suspension and debarment | N. Special tests and provisions | |
| E. Eligibility | J. Program income | | |

⁴ N/A for NONE

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N/A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.