

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

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

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF COAMO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF COAMO

YEAR ENDED JUNE 30, 2003

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditor's Report	1-2
Required Supplemental Information (Part 1) Management's Discussion and Analysis	3-10
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Notes to basic financial statements	16-38
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplemental Information (Part II):	
Budgetary Comparison Schedule-General Fund	39
Notes to Budgetary Comparison Schedule-General Fund	40
Schedule of expenditures of federal awards	41-42
Notes to the schedule of expenditures of federal awards	43
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Independent auditors' report on compliance and on internal control over financial reporting based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i>	44-45

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF COAMO

YEAR ENDED JUNE 30, 2003

CONTENTS - (CONTINUED)

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u>	
Independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A- 133	46-48
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	49-73
Summary schedule of prior year audit findings	74-76



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Coamo
Coamo, 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 Coamo**, 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.

Except as discussed in the following paragraph, we conducted our audit 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 the provisions of the Office of Management and Budget 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 the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 12, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter with respect to the Capital Assets reported value in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Coamo**, as of June 30, 2003, and the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on page 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Coamo**, taken as whole. 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 respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 17, 2003

Stamp No. 1942305 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

This discussion and analysis presents the highlights of financial activities and financial position for the Municipality of Coamo (Municipality). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Municipality.

FINANCIAL HIGHLIGHTS

The Municipality's net assets increased by \$3,114,545 (or 59 %) due primarily to street improvements and the implementation of our aggressive plan of constructions of recreation facilities and communal centers.

Governmental activities revenue amounted to \$16,090,979 for the year ended June 30, 2003:

Program Revenue	\$ 4,830,444
General Revenue	\$11,260,535

Overall Municipality's program costs amounted to \$ 12,976,434

Using This Annual Report

The Municipality's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the Municipality. The components of the report include the following:

Management's Discussion and Analysis. This section of the report provides financial highlights, overview and economic factors affecting the Municipality.

Basic Financial Statements. Includes Statements of Net Assets, Statement of Activities, fund financial statements and the notes to the financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Municipality.

The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets that the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report (CONTINUED)

The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The Municipality's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds". Budgetary comparison statements are presented for the General Fund and the Transit Fund (the sole major special revenue fund). Statements for the Municipality's proprietary funds follow the governmental funds and include net assets, revenues, expenses and changes in fund net assets, and cash flows.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Municipality's financial condition.

Other Supplementary Information. Readers desiring additional information on non-major funds can find it in the combining Statements of Non-major Funds and/or the Supplementary Information-Budgetary comparison sections of this report. Components within this section include:

Combining Statements. Major funds are included within the Basic Financial Statements, whereas non-major funds are presented here. These statements include balance sheets and statements of revenues, expenditures and changes in fund balances.

Budgetary Comparisons. Budgetary information for all funds, except General and Debt Service, which are presented within the Basic Financial Statements, is presented here.

Capital Assets and Other Financial Schedules complete the Financial Section of the report.

Statistical Section. Trend information and demographics.

Reports by Independent Certified Public Accountants. Supplemental communication on Municipality compliance and internal controls as required by Federal Agencies.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

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 demonstrated 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 reporting of infrastructure assets during the current year. The Municipality expects to retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$8,332,245 at the end of 2003, compared to net assets (excess of assets over liabilities) \$5,217,700 at the end of the previous year.

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$12,089,594
Capital assets	<u>15,743,357</u>
Total assets	<u>27,832,951</u>
Current liabilities	2,642,642
Noncurrent liabilities	<u>16,858,064</u>
Total liabilities	<u>19,500,706</u>
Invested in capital assets, net of related debt	10,228,357
Restricted	7,654,835
Unrestricted	<u>(9,550,947)</u>
Total net assets	<u>\$ 8,332,245</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets

The Municipality's net assets increased by \$3,114,545. Approximately 32% percent of the Municipality's total revenue came from taxes, while 58% percent resulted from grants and contributions, including federal aid. Charges for Services provided 3% percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, culture and recreation, health and welfare and public safety. 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	\$632,193
Operating grants and contributions	2,362,057
Capital grants and contributions	1,836,194

General revenues:

Property taxes	2,503,329
Municipal license tax	1,030,682
Other local taxes	1,742,047
Grants and contributions not restricted to specific programs	5,201,643
Interest and investment earnings	191,848
Miscellaneous	<u>590,986</u>

Total revenues	<u>\$16,090,979</u>
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Expense:

General government	5,003,278
Public safety	845,157
Public works	2,812,980
Culture and recreation	1,606,196
Health and welfare	956,939
Economic development	59,068
Community development	785,557
Urban development	24,048
Education	49,302
Interest on long-term debt	<u>833,909</u>

Total expenses	<u>12,976,434</u>
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Change in net assets	3,114,545
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Net assets, beginning of year	<u>5,217,700</u>
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Net assets, end of year	<u>\$8,332,245</u>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

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 \$9,365,974, a decrease of \$477,041 in comparison with the prior year. There are reservations of fund balance amounting to \$6,954,959. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$182,300), 2) to pay debt service (\$882,176), 3) to pay for capital projects (\$5,138,904) and 4) for other purposes (\$1,633,755).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a fund balance of \$1,711,139.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$23,640,038, net of accumulated depreciation of \$7,896,681, leaving a net book value of \$15,743,357. This investment in capital assets includes land, buildings, improvements, equipment, 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 35% in terms of net book value. Depreciation charges for the year totaled \$765,911.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003, the Municipality has \$2,441,394 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. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Debt Administration (continued)

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.

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 for the money it receives. If you have questions about the report or need additional financial information, please contact the Municipality's Finance Director at P.O. Box 1875, Coamo, Puerto Rico 00769.

Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,089,730
Cash with fiscal agent	3,728,008
Accounts receivable:	
Municipal license tax	2,479
Intergovernmental	1,225,258
Construction Taxes	19,833
Interest	4,286
Others	20,000
Capital assets	
Land, improvements, and construction in progress	4,495,366
Other capital assets, net of depreciation	11,247,991
Total capital assets	<u>15,743,357</u>
Total assets	<u>27,832,951</u>
Liabilities	
Accounts payable and accrued liabilities	954,256
Due to other governmental entities	54,165
Deferred revenues:	
Municipal license tax	628,779
Federal grant revenues	1,005,442
Noncurrent liabilities:	
Due within one year	804,998
Due in more than one year	<u>16,053,066</u>
Total liabilities	<u>19,500,706</u>
Net Assets	
Invested in capital assets, net of related debt	10,228,357
Restricted for:	
Capital projects	5,138,904
Debt service	882,176
Other purposes	1,633,755
Unrestricted (deficit)	<u>(9,550,947)</u>
Total net assets	<u>\$ 8,332,245</u>

Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 5,003,278	\$ -	\$ 314,037	\$ 475	\$ (4,688,766)
Public safety	845,157	1,475	340,911		(502,771)
Public works	2,812,980	27,327	272,929	962,461	(1,550,263)
Health and welfare	956,939		545,509		(411,430)
Culture and recreation	1,606,196	139,725	105,750	655,638	(705,083)
Economic development	59,068			50,000	(9,068)
Community development	785,557		760,414	119,670	94,527
Urban development	24,048		17,862		(6,186)
Education	49,302	463,666	4,645	47,950	466,959
Interest on long-term debt	833,909				(833,909)
Total governmental activities	\$ 12,976,434	\$ 632,193	\$ 2,362,057	\$ 1,836,194	(8,145,990)
General revenues:					
Property taxes					2,503,329
Municipal license tax					1,030,682
Other Local Taxes					1,742,047
Grants and contributions not restricted to specific programs					5,201,643
Interest and investment earnings					191,848
Miscellaneous					590,986
Total general revenues					11,260,535
Change in net assets					3,114,545
Net assets - beginning					5,217,700
Net assets - ending					\$ 8,332,245

Commonwealth of Puerto Rico
Municipality of Coamo
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 2,047,212	\$ 1,375,920	\$ 501,176	\$ 3,035,469	\$ 129,953	\$ 7,089,730
Cash with fiscal agent		2,902	401,536	2,441,394	882,176	3,728,008
Accounts receivable:						
Intergovernmental	358,975	705,208	122,409			1,186,592
Interest	4,286					4,286
Due from other funds	513,702					513,702
Total assets	\$ 2,924,175	\$ 2,084,030	\$ 1,025,121	\$ 5,476,863	\$ 1,012,129	\$ 12,522,318
Liabilities and Fund Balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 530,092	\$ 18,282	\$ 67,923	\$ 337,959		\$ 954,256
Due to other governmental entities	54,165					54,165
Due to other funds		431,993	81,709			513,702
Deferred revenues:						
Municipal license tax	628,779					628,779
Federal grant revenues			875,489		\$ 129,953	1,005,442
Total liabilities	\$ 1,213,036	\$ 450,275	\$ 1,025,121	\$ 337,959	\$ 129,953	\$ 3,156,344
Fund balances:						
Reserved for:						
Encumbrances	182,300					182,300
Capital projects				5,138,904		5,138,904
Other purposes		1,633,755				1,633,755
Reserved reported in nonmajor funds:						
Debt service fund					882,176	882,176
Unreserved:						
Undesigned	1,528,839					1,528,839
Total fund balances	\$ 1,711,139	\$ 1,633,755	\$ -	\$ 5,138,904	\$ 882,176	\$ 9,365,974
Total liabilities and fund balances	\$ 2,924,175	\$ 2,084,030	\$ 1,025,121	\$ 5,476,863	\$ 1,012,129	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	15,743,357
Accrual basis of accounting account receivables used in governmental activities are not financial resources and, therefore, are not reported in the funds	80,978
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(16,858,064.00)
Net assets of governmental activities	\$ 8,332,245

Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 2,123,576	\$ -	\$ -	\$ -	\$ 379,754	\$ 2,503,330
Municipal license taxes	1,028,203					1,028,203
Licenses, permits and other local taxes	1,722,214					1,722,214
Charges for services	167,052					167,052
Intergovernmental	5,120,127	1,428,779	5,655	1,774,409		8,328,970
Fines and forfeitures	1,475					1,475
Interest	191,848					191,848
Federal grants			1,202,050		267,784	1,469,834
Miscellaneous	570,943	517			25,615	597,075
Total revenues	10,925,438	1,429,296	1,207,705	1,774,409	673,153	16,010,001
Expenditures						
Current:						
General government	\$ 4,291,959	\$ 723,917	\$ -	\$ 7,007	\$ -	\$ 5,022,883
Public safety	713,435	121,083	161,012			995,530
Public works	2,846,918	301,691	56,552	1,335,278		4,540,439
Health and welfare	491,565	15,507	199,370	5,483	293,399	1,005,324
Culture and recreation	362,058	102,300		1,452,254		1,916,612
Economic development	573,081					573,081
Community development	164,308	7,654	786,226	62,726		1,020,914
Urban development	24,048					24,048
Education			4,545	44,757		49,302
Debt service:						
Principal					505,000	505,000
Interest					833,909	833,909
Total expenditures	\$ 9,467,372	\$ 1,272,152	\$ 1,207,705	\$ 2,907,505	\$ 1,632,308	\$ 16,487,042
Excess (deficiency) of revenues over (under) expenditures	1,458,066	157,144		(1,133,096)	(959,155)	(477,041)
Other financing sources (uses)						
Transfers in		652,660			744,100	1,396,760
Transfers out	(1,396,760)					(1,396,760)
Total other financing sources (uses)	\$ (1,396,760)	\$ 652,660	\$ -	\$ -	\$ 744,100	\$ -
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	61,306	809,804	-	(1,133,096)	(215,055)	(477,041)
Fund balance, beginning	1,649,833	823,951		6,272,000	1,097,231	9,843,015
Fund balance, ending	\$ 1,711,139	\$ 1,633,755	\$ -	\$ 5,138,904	\$ 882,176	\$ 9,365,974

Commonwealth of Puerto Rico
Municipality of Coamo
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ (477,041)**

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

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 3,764,505

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (765,910)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. (264,880)

Some expenses reported in the Governmental Funds require the use of current financial resources and, therefore, are not reported as expenditures in Statement of Activities. 271,893

Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds. 80,978

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount of debt service principal payments. 505,000

Change in Net Assets of Governmental Activities **\$ 3,114,545**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Coamo** (the Municipality) was founded on the year 1579. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

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

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 13.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Component Units

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

B. Government-wide and fund financial statements

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.

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

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

Special Revenue Fund - Local and State Grants- is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by Municipality ordinances or state statutes.

Special Revenue Fund - Federal Grants- is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

Capital Project Fund - Local, State and Federal Grants - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial reporting presentation

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

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

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

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

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

Capital Projects Funds - Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

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

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

E. Assets, liabilities and net assets

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

Cash with fiscal agent in the debt services 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.

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The municipality has the following reservations of fund balance:
 - a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
 - a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$258,111. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$226,358 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$15,743,357	
Deduct:		
Bonds Payable	(5,245,000)	
Notes Payable	<u>(270,000)</u>	\$10,228,357
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		5,138,904
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		882,176
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balance restricted for other purposes		1,633,755
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	1,711,139	
Add:		
Accrual Basis Account Receivables	80,978	
Deduct:		
Bonds and Notes Payable	(8,515,000)	
Unemployment Tax - Department of Labor	(106,564)	
Property Tax - Department of Treasury	(208,886)	
Property Tax - CRIM Law 42	(721,392)	
Property Tax - CRIM Law 146	(727,625)	
Compensated Absences	(1,033,597)	
Claims and judgments debt	<u>(30,000)</u>	<u>(9,550,947)</u>
Total net assets - governmental activities		<u>\$8,332,245</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

2. 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 are held by the Secretary of the Treasury of Puerto Rico. In addition, the municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$2,047,212, \$1,375,920, \$501,176, 3,035,469 in the general fund, special revenue fund - state and local grants, special revenue fund - federal grants, capital project fund - state and local grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$129,953 that were fully collateralized.

The deposits at GDB of approximately \$2,441,394, that is restricted principally for capital projects in the capital project fund - state and local grants, the \$2,902 in the special revenue fund - state and local grants, the \$401,536 in the special revenue fund - federal grants, and the \$882,176 that is restricted for debt service fund in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivables- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$138,778
Municipal Revenue Collection Center ("CRIM")	199,197
Public Schools Improvements Office	<u>21,000</u>
Total	<u>\$358,975</u>

Intergovernmental receivables in the special revenue fund – state and local grants consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the proceeds of a lawsuit against the PREPA resolved during the fiscal year. Also, intergovernmental receivable in special revenue fund – state and local grant represents expenditures incurred not yet reimbursed by state and local government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$599,571
Department of Labor	<u>105,637</u>
Total	<u>\$705,208</u>

Intergovernmental receivable in special revenue funds – federal grant represent expenditures incurred not yet reimbursed by the federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Public Safety and Community Policing Grants	\$ 62,731
Community Development Block Grant – State's Program	<u>59,678</u>
Total	<u>\$122,409</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – Federal Grants	Reimbursable Expenditures	\$ 81,709
General Fund	Special Revenue Fund – State and Local Grants	Reimbursable Expenditures	297,132
General Fund	Special Revenue Fund – State and Local Grants	General Fund Loan to a Special Revenue Fund	<u>134,861</u>
Total			<u>\$513,702</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – State and Local Grants	To create new Funds	\$ 652,660
General Fund	Debt Service Fund	Debt Retirement	<u>744,100</u>
Total			<u>\$1,396,760</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$ 3,181,485			\$ 3,181,485
Construction in progress	<u> </u>	<u>\$1,313,882</u>	<u> </u> -	<u>1,313,882</u>
Total capital assets not being depreciated	<u>3,181,485</u>	<u>1,313,882</u>	<u> </u> -	<u>4,495,367</u>
Capital assets, being depreciated:				
Buildings	\$13,267,746	\$1,039,812		\$14,307,558
Infrastructure		740,971		740,971
Equipment	689,376	203,890		893,266
Vehicles	<u>2,736,926</u>	<u>465,950</u>	<u> </u> -	<u>3,202,876</u>
Total capital assets being depreciated	<u>\$16,694,048</u>	<u>\$2,450,623</u>	<u> </u> -	<u>\$19,144,671</u>
Less accumulated depreciation for:				
Buildings	(\$5,149,301)	(\$393,637)		(\$5,542,938)
Infrastructure		(10,255)		(10,255)
Equipment	(480,199)	(86,042)		(566,241)
Vehicles	<u>(1,501,270)</u>	<u>(275,977)</u>	<u> </u> -	<u>(1,777,247)</u>
Total accumulated depreciation	<u>(\$7,130,770)</u>	<u>(\$ 765,911)</u>	<u> </u> -	<u>(\$7,896,681)</u>
Total capital assets being depreciated, net	<u>\$ 9,563,278</u>	<u>1,684,712</u>	<u> </u> -	<u>\$11,247,990</u>
Governmental activities capital assets, net	<u>\$12,744,763</u>	<u>\$2,998,594</u>	<u> </u> -	<u>\$15,743,357</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$122,009
Public safety	86,439
Public works	215,875
Culture and recreation	289,350
Health and welfare	10,720
Economic development	<u>41,518</u>
Total depreciation expense-governmental activities	<u>\$765,911</u>

6. PROPERTY TAXES

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

On December 1994 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$208,886 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 32,554
2005	32,554
2006	32,554
2007	32,554
2008	32,554
Thereafter	<u>46,116</u>
Total	<u>\$208,886</u>

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net assets includes an outstanding debt balance of \$721,392 and \$727,625 related to Law 42 and Law 146 respectively.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$628,779 in the general fund relates 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 COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

B. Federal Government- The deferred revenues presented in the special revenue funds - federal grant represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Public Assistance Grant	\$ 441,107
Child Care and Development Block Grant	335,134
Section 8 Housing Choice Voucher	129,953
Local Law Enforcement Block Grant	33,608
Child and Adult Care Food Program	32,989
Library Service and Technology Grant	7,924
Community Service Block Grant	7,475
Juvenile Justice and Delinquency Prevention	5,715
Emergency Management Performance Grant	4,648
Others	<u>6,889</u>
Total	<u>\$1,005,442</u>

8. LONG-TERM LIABILITIES

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 5,425,000		(\$180,000)	\$ 5,245,000	\$210,000
Notes Payable	9,110,000		(325,000)	8,785,000	300,000
General Service Administration	54,354		(54,354)		
Unemployment Tax - Department of Labor	168,047		(61,483)	106,564	61,483
Property Tax - Department of Treasury	241,439		(32,554)	208,885	32,554
Property Tax - CRIM Law 42	777,085		(55,692)	721,393	57,415
Property Tax - CRIM Law 146	727,625			727,625	46,533
Compensated Absences	866,527	\$234,880	(67,810)	1,033,597	67,013
Claims and judgments	<u> </u>	<u>30,000</u>	<u> </u>	<u>30,000</u>	<u>30,000</u>
Total	<u>\$17,370,077</u>	<u>\$264,880</u>	<u>(\$776,893)</u>	<u>\$16,858,064</u>	<u>\$804,998</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1992 Series	7-1-2006	\$ 790,000	3.26% to 6.36%	\$ 330,000
1995 Series	7-1-2014	235,000	4.70% to 6.88%	190,000
1995 Series	7-1-2014	1,430,000	6.11% to 7.71%	1,115,000
1997 Series	7-1-2017	300,000	4.87% to 7.81%	260,000
1999 Series	7-1-2013	205,000	4.87% to 6.31%	165,000
2000 Series	7-1-2024	405,000	5.88% to 7.50%	390,000
2002 Series	7-1-2027	810,000	6.00% to 7.25%	810,000
2002 Series	7-1-2026	2,015,000	5.00% to 7.00%	<u>1,985,000</u>
Total general obligation bonds				<u>\$5,245,000</u>

These bonds are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 210,000	\$ 293,372
2005	225,000	281,545
2006	250,000	268,382
2007	275,000	253,476
2008	200,000	239,936
2009-2013	1,215,000	1,001,969
2014-2018	1,080,000	613,922
2019-2023	870,000	381,674
2024-2028	<u>920,000</u>	<u>252,000</u>
Total	<u>\$5,245,000</u>	<u>\$3,586,276</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

3. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2003</u>
1997 Series	7-1-2021	\$10,000,000	6.00%	\$8,515,000
2000 Series	7-1-2006	435,000	5.88% to 7.81%	<u>270,000</u>
Total notes payable				<u>\$8,785,000</u>

These notes, except the 1997 Series bond, are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$300,000	\$517,961
2005	320,000	501,840
2006	345,000	484,619
2007	370,000	465,904
2008	320,000	447,000
2009-2013	1,985,000	1,917,900
2014-2018	2,855,000	1,225,500
2024-2028	<u>2,290,000</u>	<u>281,700</u>
Total	<u>\$8,785,000</u>	<u>\$5,842,424</u>

4. **Property Tax Debt-** These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

5. Compensated absences- The government-wide statement of net assets includes approximately \$552,860 of accrued sick leave benefits, and approximately \$480,737 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

9. PENSION PLAN

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

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

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

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$245,317 and \$274,962, respectively.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department 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.

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$30,000 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

12. CAPITAL ASSETS REPORTED VALUE:

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported value in governmental activities and, accordingly, The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

13. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$25,730 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the reclassification of beginning cash balances, the recognition of interfund transactions pending at year end, and the elimination of liabilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 1,924,379	\$1,924,379	\$1,924,379	
Municipal license tax	1,178,301	1,009,065	1,028,203	\$19,138
Licenses, permits and other local taxes	1,593,452	1,593,452	1,722,214	128,762
Charges for service	182,451	182,450	187,052	4,602
Intergovernmental	5,061,435	5,018,935	5,120,127	101,192
Rent of property				
Fines and forfeitures	5,000	525	1,475	950
Interest	135,600	135,600	202,950	67,350
Miscellaneous	251,202	617,416	1,162,537	545,121
Operating transfer from other fund				
Total revenues and other financing sources before carryover	<u>10,331,820</u>	<u>10,481,822</u>	<u>11,348,937</u>	<u>867,115</u>
Budget carryover (1)				
Total revenues and other financing sources after carryover	<u>10,331,820</u>	<u>10,481,822</u>	<u>11,348,937</u>	<u>867,115</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$4,088,657	\$4,397,845	\$4,335,675	\$62,170
Public safety	874,698	803,971	795,815	8,156
Public works	2,887,296	2,733,475	2,688,921	44,554
Health and welfare	487,825	492,825	491,565	1,260
Culture and recreation	409,998	376,239	362,058	14,181
Economic development	603,455	577,248	573,081	4,167
Community development	208,838	174,166	164,308	9,858
Urban development	20,000	25,000	24,349	651
Operating transfer to other fund	<u>751,053</u>	<u>901,053</u>	<u>1,396,760</u>	<u>(495,707)</u>
Total expenditures, encumbrances and other financing uses	<u>10,331,820</u>	<u>10,481,822</u>	<u>10,832,532</u>	<u>(350,710)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>516,405</u>	<u>516,405</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$11,348,937
Differences-budget to GAAP:				
Reversal of prior year Accounts Receivables				(647,982)
Recognition of current year Accounts Receivable				224,483
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$10,925,438</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$10,832,532
Differences-budget to GAAP:				
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose				(1,396,760)
Nonbudgeted expenditures				60,889
Reclassification of expenditures to Special Revenue Fund				(186,984)
Prior year encumbrances recorded as current year expenditures for GAAP basis				188,678
Current year encumbrances recorded as expenditures for budgetary purposes				(30,983)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$9,467,372</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	CCC-131	\$ 8,634
Total U.S. Department of Agriculture			<u>8,634</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Section 8 Housing Choice Voucher Program	14.871		267,784
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grants -State's Program	14.228	94-FD-18 96-FD-18 97-FD-18 98-FD-18 99-FD-18 00-FD-18 01-FD-18 02-FC,AB-18	<u>785,652</u>
Total U.S. Department of Housing and Urban Development			<u>1,053,436</u>
U.S. DEPARTMENT OF JUSTICE:			
Direct Program: Public Safety Partnership and Community Policing Grants	16.710		82,380
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office): Juvenile Justice and Delinquency Prevention	16.540	00-JP-FX-0072	574

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law and Enforcement Block Grants	16.592	2000-LB-BX-1085	<u>67,236</u>
Total U.S. Department of Justice			<u>150,190</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency: Emergency Management Performance Grant	83.552	Not Available	11,396
Pass-through the Commonwealth of Puerto Rico - Office of the Governor Authorized Representative (GAR): Public Assistance Grants	83.544	1247-DR-PR 1136-DR-PR	<u>50,897</u>
Total U.S. Federal Emergency Management Agency			<u>62,293</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Library Service and Technology Grant	N/A	Not Available	4,545
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care and Development Block Grant	93.575	Not Available	<u>190,736</u>
Total U.S. Department of Health and Human Services			<u>195,281</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,469,834</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Coamo and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund-Federal Grants and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 1,202,050	\$ 267,784	\$ 1,469,834
Non federal programs Expenditures	<u>5,655</u>	<u>1,364,524</u>	<u>1,370,179</u>
Total expenditures in the fund financial statements	<u>\$ 1,207,705</u>	<u>\$ 1,632,308</u>	<u>\$ 2,840,013</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S 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 the Municipal Legislature
Municipality of Coamo
Coamo, Puerto Rico**

We have audited the basic financial statements of the **Municipality of Coamo** as of and for the year ended June 30, 2003, and have issued our report thereon dated November 17, 2003, which was unqualified at the fund financial level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities. Except as discussed in the preceding sentence, 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 Coamo'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 on the determination of basic 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 tests 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 Coamo'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. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Coamo's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items 03-01 through 03-05.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item 03-01 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Coamo in a separate letter dated November 17, 2003.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 17, 2003

Stamp No. 1942306 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**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 the Municipal Legislature
Municipality of Coamo
Coamo, Puerto Rico

Compliance

We have audited the compliance of the **Municipality of Coamo** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The **Municipality of Coamo'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 the **Municipality of Coamo's** management. Our responsibility is to express an opinion on the **Municipality of Coamo'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Coamo'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 the **Municipality of Coamo's** compliance with those requirements.

In our opinion, the **Municipality of Coamo** 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 that 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 items, 03-06 through 03-15.

**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
(CONTINUED)**

Internal Control Over Compliance

The management of the **Municipality of Coamo** 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 the **Municipality of Coamo'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.

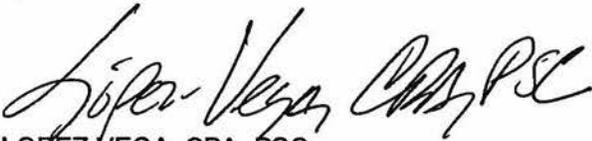
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Coamo's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **03-06** through **03-15**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with 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 on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **03-06, 03-09, through 03-10, 03-12 through 03-13 and 03-15** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Coamo** in a separate letter dated March 2, 2004.



**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
(CONTINUED)**

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 2, 2004

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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified, except for adverse for government-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Type of auditors’ report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State’s Program
14.871	Section 8 Housing Choice Voucher Program
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-01
Requirement	Fixed\Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-03
Requirement	Expenditures for Goods and Services and Account Payables – Purchasing
Statement of Condition	<p>During our examination of the Municipality's procedures related to the formal procurement process we examined twenty two (22) bid files and other related documents and we noted the following situations:</p> <ul style="list-style-type: none">a. We did not find evidence regarding the mailing of adjudication or non-adjudication letters through certified mail for two (2) bidders who participated in the formal bids.b. We did not find evidence in the bid or contract files about the following bonding, insurance or tax requirements:<ul style="list-style-type: none">1. Bid bond – One (1) case2. Payment and Performance Bond – Two (2) cases3. Workmen Compensation Insurance – Three (3) cases4. General Liability Insurance – Two (2) cases5. Municipal License Tax – Two (2) cases6. Municipal Excise Construction Tax – Two (2) cases
Criteria	<p>Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services. Article 8.016 (c) of State Act Number 81 of August 30, 1991 establishes that prior to the execution of construction contracts, the Municipality shall obtain from contractors evidence of Workmen Compensation Insurance payment, a Payment and Performance Bond, and whatever bond or insurance required by the Municipality's Bid Board.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-03 (continued)
Cause of Condition	The Municipality's internal control procedures failed to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.
Effect of Condition	The Municipality is not in compliance with Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico and with the Article 8.016 (c) of State Act Number 81 of August 30, 1991.
Recommendation	We recommend to the Municipality's management to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in bid or contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-04
Requirement	Cash Receipts, Excise Taxes and Municipal License Taxes
Statement of Condition	We performed a cash receipt test and examined a sample of one hundred sixteen (116) collections and noted that for several collections the Municipality did not maintain evidence of the customer's remittance data and other support.
Criteria	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter III, Section V, establish that the Finance Director or any other designed public official are responsible for the maintenance and conservation of the records, documents and files related to the revenues transactions.
Cause of Condition	The Municipality's controls and procedures failed to assure that all revenues transactions were properly supported by documentation.
Effect of Condition	The Municipality is not in compliance with regulations stated in the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter III, Section V.
Recommendation	The Municipality should strengthen the filing procedures in order to assure that collections supporting documents as deposit slips, treasurer receipts and the customer's remittance data and other support are duly organized.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference **03-05**

Requirement **Payroll and Related Liabilities – Payroll Preparation and Timekeeping**

Statement of Condition We performed a payroll test and examined a sample of 60 personnel files, and the related payroll documents of these employees. For forty (40) of those employees we verified the documents related with the semi-monthly payroll ended April 30, 2003, and for twenty (20) we verified the documents related with the semi-monthly payroll ended on June 30, 2003. The following summarize the exceptions observed:

- a. Five (5) employee's time assistance cards report absences during the period examined by us, but such absences disagree with absences deducted from the employee's compensated absences cards.
- b. One (1) employee's time assistance card was not available for our examination.
- c. One (1) compensated absences card was not available for our examination.
- d. For one (1) employee the gross wage rate per payroll did not agree with the gross wage rate included in the employee's file.
- e. One (1) cancelled check was not available for our examination.
- f. The accumulated vacation balance for one (1) employee was not included in the Accrued Compensated Absences Detail prepared by client, and used to support the liability reported in the government-wide statement of net assets.
- g. For three (3) employees the vacation balance per compensated absences cards does not agree with the Accrued Compensated Absences Detail prepared by client, and used to support the liability reported in the government-wide statement of net assets.
- h. For four (4) employees the sick vacation balance per compensated absences cards does not agree with the Accrued Compensated Absences Detail prepared by client, and used to support the liability reported in the government-wide statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-05 (continued)
Criteria	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files. Also, Article 11.023 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated employee files.
Cause of Condition	The Municipality's procedures and controls failed to assure the proper preparation and payment of payroll, the exactitude of compensated absences balances and the maintenance of updated employee's file.
Effect of Condition	The Municipality did not maintain an adequate control over the personnel files, compensated absences records, and time and assistance records.
Recommendation	We recommend the Municipality to strengthen its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should deduct from the compensated absences cards the vacation and sick leave days used by employees as detailed in the time assistance card.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Financial Administration – Standard for Financial Management System
Statement of Condition	During our audit, we noted that the Municipality did not maintain for the Section 8 Housing Choice Vouchers Program a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance.
Criteria	<p>Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>The Housing Assistance Payments Program Accounting Handbook states the minimum HUD accounting requirements with respect to Housing Assistance Payments Program Projects under annual contribution contracts.</p>
Cause of Condition	The Municipality's controls failed to assure that the accountability of all federal transactions were in accordance with federal regulations. This situation may cause the non-compliance with certain regulations like allowable costs or allowable activities and financial reporting preparations.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Part 85.20 (b) (2) and, with the Housing Assistance Payments Program Accounting Handbook.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-06 (continued)

Recommendation We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions as required by the federal regulations.

Questioned Cost None.

Management Response When our administration started in January, 2001 we faced the dilemma that there was no General Ledger nor Income/Expense Subsidiary Ledger, nor HAP Registers. The Accounting for the Section 8 program was contracted to an independent entity which did not leave nor submit such financial data or books to this matter. The years from July 1997 through December 2000 did not exist.

On September 2003, an accountant was appointed to manage accounting matters of Section 8. From this date we have been gathering data to create such books and to post monthly to the General Ledger. Up to this date we have completed 75% of 42 months work load. We have available for review the following Financial data/books, such books were available when the audit commenced.

We have performed and gathered data from 1997-2004 to establish and income and expense ledger, which was presented to the auditors. We're in the process of posting each months balance to the General Ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of individuals
Statement of Condition	<p>We performed an eligibility test and examined a sample of fifteen (15) participant's files. We noted that there is an inconsistency in the minimum Total Tenant Payment (TTP) used during the current year as part of the Housing Assistance Payment calculations. The PHA administrative plan states that the minimum Total Tenant Payment (TTP) for the Municipality of Coamo was \$25 unless the PHA document in the participant's file that a lower amount was used. In six (6) participant's files we noted that the PHA used a (TTP) lower than \$25 with out documenting the reason for such variance. The following summarize the situations noted:</p> <ul style="list-style-type: none">a. In one (1) participant file the Total Tenant Payment (TTP) used was twenty four (\$24).b. In one (1) participant file the Total Tenant Payment (TTP) used was ten (\$10).c. In one (1) participant file the Total Tenant Payment (TTP) used was nine (\$9).d. In one (1) participant file the Total Tenant Payment (TTP) used was six (\$6).e. In two (2) participant's files the Total Tenant Payment (TTP) used was zero (\$0).
Criteria	<p>Code of Federal Regulations 24, Section 982.158 states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits an effective audit. Also, the PHA administrative plan states that the minimum rent policy for the Municipality of Coamo's participant will be \$25.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07 (continued)
Cause of Condition	The Municipality controls and procedures failed to assure that the Total Tenant Payment (TTP) used by the PHA was in accordance with the administrative plan.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.158 and with the PHA administrative plan.
Recommendation	We recommend the Program to establish monitoring procedures to assure that the participant's files include support documentation about any inconsistency in the Total Tenant Payment (TTP) used.
Questioned Costs	None.
Management Response	The Municipality has adopted a Minimum Rent Policy of \$25.00. Our Administrative Plan 2002-2003 states when is a participant exempt in applying minimum Rent established (\$25.00). That is the reason some participants are under \$25.00. According to Handbook 7420.10G states "If a PHA adopts a minimum rent policy of greater than -0-, the PHA determines that the family is unable to pay the amount due to financial hardship" see copy of Administrative Plan for such circumstances. If a family is exempt from the minimum requirement, the TTP is bound to be less than \$25.00 not necessarily -0-.
Auditors Comment	Although the PHA Administrative Plan approved by HUD for the fiscal year 2002-2003 states that the minimum rent policy for the PHA will be \$25 unless the applicant qualified for a hardship exemption, we did not observe evidence (supporting documents) in the participants files reported in the condition above about the evaluation and conclusions reached by the Program staff to qualify those participants as hardship exempted. Therefore, we believe that the condition prevails.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Quality Standards Inspections and Housing Quality Standards Enforcement
Statement of Condition	<p>During our examination of fifteen (15) participant's files, we noted the following situations:</p> <ul style="list-style-type: none">a. In two (2) cases with Housing Quality Standard deficiencies we noted that the correction period has ended, but the participant's files did not contain a unit re-inspection report or evidence documenting that the PHA required repairs were completed. Also, we did not find documents in the files that show the PHA properly stopped HAP's or terminated the HAP contract.b. In one (1) case with Housing Quality Standard deficiencies we noted that the correction period had ended and we found a document in the files that showed the PHA property stopped HAP one hundred fifty four (154) days after the correction period ended.
Criteria	<p>Code of Federal Regulations 24, Sections 982.158 (d) and 982.404 established that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, for family-cause defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08 (continued)
Cause of Condition	The Municipality controls and procedures failed to assure that annual inspections and quality control re-inspections were properly performed and documented in participants files and to assure that adequate follow up was realized by the management to assure that the exceptions detailed in the inspection report are corrected in the required period as required in the Housing Quality Standards Enforcement.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.404.
Recommendation	We recommend management to improve monitoring procedures to assure that annual inspections and quality control re-inspections are properly documented in the participant files and to assure that the exceptions detailed in the inspection reports are duly corrected by the owner or the participant in the required period.
Questioned Costs	None.
Management Response	<p>Inspection reports are duly rendered by the inspector. Such report (HUD 52580) is placed in the participant's file. The inspector will be advised as to performing a through inspection as well as re-inspecting units that do not pass. An inspection control log will be established.</p> <p>Disbursements records are not filed in the participants file. HAP Payments stopped due to HQS incompliance was available upon request. Financial data is filed in the disbursement files for each participant.</p>
Auditors Comment	<p>According to our examination of documents filed in the participant files reported in the condition above, we did not observe evidence that supports the management response about that the re-inspections reports were placed in each participant's files. As per our conversation with the Program Coordinator, we requested such evidence, but it was not submitted to us. Therefore, we believe that the condition prevails.</p> <p>With respect to the stopped HAP or terminated HAP contract actions, no evidence such as letters to communicate the PHA actions to the owner was observed in the participant's files examined by us. Although the Program Coordinator responds that evidence was available upon request, as per our conversation with her, we requested such evidence, but it was not submitted to us. Therefore, we believe that the condition prevails</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Utility Allowance Schedule
Statement of Condition	The Municipality did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. There is no evidence of the last time that the Utility Allowance Schedule was actualized.
Criteria	Code of Federal Regulations, 24 CFR Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The Municipality did not follow the procedures established to review utility rate data each year.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
Recommendation	The Municipality should evaluate utility allowance rate each year as established in the federal regulations.
Questioned Costs	None.
Management Response	We are in the process of contracting professional services to perform such duties. Harrison Consulting Group and Paul Biskirk have been summoned for quotations for these tasks. This to comply with the Code of Federal Regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	03-10
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of nine (9) participant’s files of the housekeeping assistance project, we noted the following exceptions:</p> <ul style="list-style-type: none">a) Two (2) files did not contain the application form OCAM-AH-002 completed by the participant.b) Eight (8) files did not contain evidence about the identity verification for the other family members.c) In nine (9) files the participant did not complete the approval application form OCAM –AH-004A.d) In nine (9) files the participant did not complete a participation contract form OCAM-AH-005, establishing the service plan to be offered by the CDBG program.e) In seven (7) cases, the Services Coordinator visited only one (1) time the participant housing unit to ensure the quality of services.f) In two (2) cases, the participant files did not include evidence that demonstrate if the Services Coordinator visited at least two times per month the participant housing unit to ensure the quality of services.
Criteria	<p>Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Office of Commissioner of Municipal Affairs (“OCAM”) issued a procedures manual for housekeeper activities.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	03-10 (continued)
Cause of Condition	The Municipality's controls and procedures failed to assure that the participant's files include all the required documents to comply with the program requirements.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Section 570.484 and with the procedures manual issued by the Office of Commissioner of Municipal Affairs ("OCAM").
Recommendation	We recommended management to follow the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures guide title "Guia operacional para la prestación del servicio de auxiliaries en el hogar", including the use of the forms included on it.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsing between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds from Pass-through Grantor only for immediate needs.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to continue strengthen it’s procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-12
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test for the construction activities related to the projects 01-FD-18-002 and 01-FD-18-004, we noted we noted that the Municipality did not apply during the fiscal year 2002-2003 the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees; contractor’s laborers interviews were not made periodically and contractor’s weekly payrolls were not requested promptly during construction period to be reviewed by the Municipal Employee responsible for applying monitoring procedures. Also, no evidence was observed by us about if the contractors were informed in the procurement process and prior to contractual agreement signature about the applicability of Davis Bacon Act.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7)
Cause of Condition	The Municipality’s internal controls failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	We recommend management to follow monitoring system procedures developed, including obtaining contractor’s and subcontractor’s weekly payrolls to be reviewed on a weekly basis by the responsible Municipal Employee to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-12 (continued)**

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-13**

Program **Community Development Block Grants – State's Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)**

Requirement **Equipment and Real Property Management**

Statement of Condition **Section II – Financial Statements Findings – Finding Reference 03-01**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provision test, we noted the following situations: <ul style="list-style-type: none">a. Three (3) contracts did not include a provision for compliance with Davis Bacon Act.b. Three (3) contracts did not include a provision for compliance with sections 103 and 107 of the contract work hours & safety standards act.c. Three (3) contracts did not include a provision for granting accesses to GAO or other federally agency, to books and other documents.d. Three (3) contracts did not include a provision for compliance with the Clean Air Act and Water Act.e. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act.f. Three (3) contracts did not include a provision for compliance with the Copeland “Anti-Kickback”.g. Three (3) contracts did not include a provision for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality’s internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14 (continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Reporting
Statement of Condition	<p>During our examination of the program’s Financial Quarterly Reports, we noted the following situations:</p> <ul style="list-style-type: none">a. The Municipality did not maintain evidence to demonstrate if the Financial Quarterly Reports were submitted on a timely basis to the Pass-through Grantor.b. For the Financial Quarterly Report ended on June 30, 2003, cash outlays per general ledgers pertaining to program years 1999 and 2001 disagree with cash outlays reported in the quarterly reports as follows:<ul style="list-style-type: none">i. For project 99-FD-18-003 the general ledger shows \$1,889 of outlays in excess of amount reported in the quarterly report.ii. For project 01-FD-18-002 the quarterly report present in the account number 505b, \$140 of cash outlays that according with the general ledger belong to the account number 505a.
Criteria	<p>Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15 (continued)
Cause of Condition	The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.
Effect of Condition	The Municipality did not report on time accurate financial results to Pass-through Grantor for the quarter ended June 30, 2003.
Recommendation	We recommend to the Municipality Management to reconcile differences between the financial quarterly report and the general ledgers before report submission to the pass-through grantor. Also, we recommend to the Municipality management to maintain evidence to support submission date of the Financial Quarterly Report to OCAM.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-07	14.228	<p><u>The Municipality should establish the following procedures: Ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract; realize pre-rehabilitation inspection describing the participant housing unit deficiencies to be corrected; assign a staff with knowledge in construction matters to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications; assure that all participant files include all required documentation such as eligibility determination, adequate evidence of family income and evidence of residence existence; assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG - State's Program Annual Proposal.</u></p> <p>Full corrective action has been taken.</p>
02-08	14.228	<p><u>The Municipality should establish the following procedures; maintain a participant file including all documents required by the procedures manual for housekeeping services projects issued by the Office of Commissioner of Municipal Affairs ("OCAM"); complete an application form for each applicant prior to selection as Program participant; determine the applicants eligibility based on documentation or procedures such as: family income evidence (pay stub, income tax returns, etc.), family expenses evidence (medical expenses, utilities expenses, etc.), applicants and other family members identity verification (through social security cards, birth certificates, etc.), current health certificates, and visits to the applicants housing unit prior to the admission to the Program. Notify approvals or denials of applications through letters; sign written agreements establishing the service plan to be offered by the Program; visit at least twice per month the participants housing unit to ensure quality of services; assessment of housekeeper's performance; assure that all participant files include all required documentations such as eligibility determination, adequate evidence of family income and evidence of residence existence; assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG - State's Program Annual Proposal.</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-10.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-09	14.228	<p><u>The Municipality should maintain its cash management internal control procedures to assure compliance with the cash management requirement.</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-11.</p>
02-10	14.228	<p><u>The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-13.</p>
02-11	14.228	<p><u>The Municipality should provide training to employees who prepare contracts in order to assure that contracts to be executed includes all clauses required by the Federal, State and Local Regulations.</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-14.</p>
02-12	14.228	<p><u>The Municipality should reconcile differences between the financial quarterly report and the general ledgers before report submission to the Pass-through Grantor.</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-15.</p>
01-06	14.228	<p><u>Failures related to housing rehabilitation participant files</u></p> <p>Full corrective action has been taken.</p>
01-07	14.228	<p><u>Cash in excess of immediate needs</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-11.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-08	14.228	<p><u>The Municipality did not apply monitoring procedures to assure contractors compliance with Davis-Bacon Act.</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-12.</p>
01-09	14.228	<p><u>Inadequate Property Records and Reports</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-13.</p>
01-10	14.228	<p><u>Reporting failures</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-15.</p>
01-11	83.544	<p><u>The files maintained by each Project Worksheet were not maintained as required by the GAR</u></p> <p>No corrective action has been taken. The Municipality will follow requirements established by the Office of the Governor Authorized Representative (GAR) in the future, including the maintenance of a file for each Project Worksheet (PW); budget authorization, authorized scope of work, procurement process (if applicable), expenditures supporting documents, photos, etc.</p>
98-4	14.857 14.855	<p><u>Inspection of Section 8 Lease Units</u></p> <p>No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 03-08.</p>