

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

**MUNICIPIO DE FAJARDO**  
**AUDITORIA 2002-2003**  
**30 DE JUNIO DE 2003**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2003

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY  
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO  
BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2003  
(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133)**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO  
BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2003  
(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE  
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)**

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**PART I**  
**FINANCIAL**



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**INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
Member of the Municipal Legislature  
Municipality of Fajardo, 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 Fajardo, Puerto Rico (Municipality)**, 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 an opinion on these basic financial statements based on our audit. Other auditor whose report, dated February 28, 2003, expressed a qualified opinion on those statements audited the financial statements of the **Municipality** as of June 30, 2002.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

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

We also audited the adjustments described in Note 15 that were applied to restate the 2002 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 28 and 29 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.

As described in Notes 1 and 15, the **Municipality** has implemented a new financial reporting model, as required by **GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments**, **GASB Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus**, **GASB Statement No. 38, Certain Financial Statement Note Disclosures**, and **GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements** as of July 1, 2002.

**INDEPENDENT AUDITORS' REPORT**

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In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2004 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
January 21, 2004



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Management of the **Municipality of Fajardo, Puerto Rico (Municipality)** discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the **Municipality's** financial activity, (c) identify changes in the **Municipality's** financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget, and (e) identify individual fund issues or concerns. This narrative overview and analysis of the financial activities of the **Municipality** is for the fiscal year ended June 30, 2003. We encourage readers to consider this information with the **Municipality's** basic financial statements that follow.

Because the **Municipality** is implementing new reporting standards for this fiscal year with significant changes in content and structure, the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the **Municipality's** financial position and results of operations.

**FINANCIAL HIGHLIGHTS**

**Government-wide:**

The **Municipality's** net assets increased by \$2.8 million (or 8%).

The governmental activities revenue increased \$3.8 million (or 14%).

**Fund Level:**

The total cost of all **Municipality** programs increased by \$1.8 million (or 0.7%).

The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase in fund balance of \$4.0 million (or 37%).

**USING THIS ANNUAL REPORT**

This annual report consists of three components: 1) Management's Discussion and Analysis (this section), 2) Basic Financial Statements, and 3) Required Supplementary Information. In light of the fact that this is a very different presentation from the pre-GASB Statement Number 34 model, the following graphic is provided for your review (**Figure A-1** on next page). The Basic Financial Statements include two kinds of statements that present different views of the **Municipality** as follow:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Page 2

**Government-wide Statements (Reporting the Municipality as Whole)**

The **Statement of Net Assets** and **Statement of Activities** are two financial statements that report information about the **Municipality**, as a whole, and about its activities similar to a private-sector business. These statements provide both short-term and long-term information about the **Municipality's** economic condition at the end of the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include two statements:

The **Statement of Net Assets** (page 11) presents all the **Municipality's** assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets is an indicator of whether the **Municipality's** financial position is improving or deteriorating.

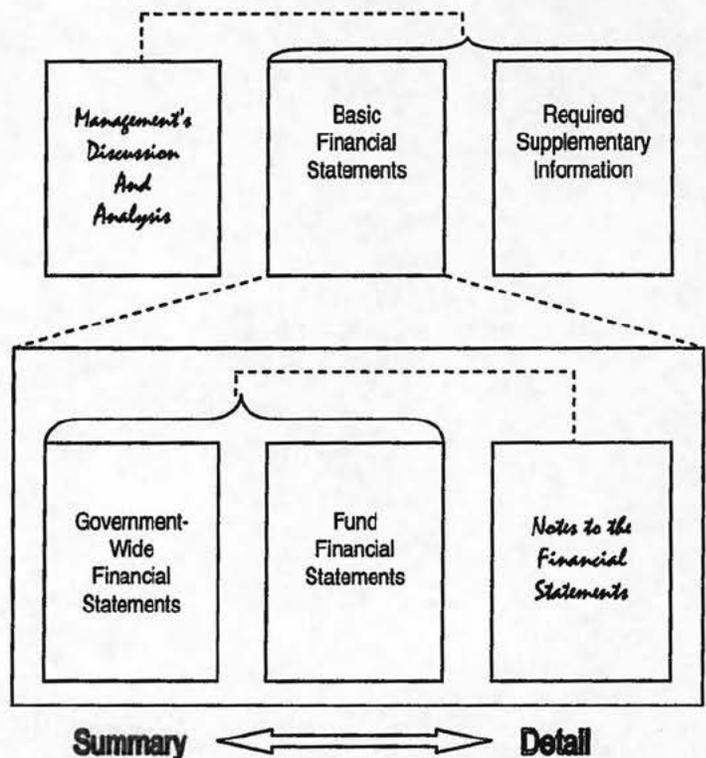
The **Statement of Activities** (page 12) presents information showing how the **Municipality's** net assets change during the most recent fiscal year. All the changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund Financial Statements (Reporting the Municipality's Major Funds)**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than (the previous financial reporting model's) fund types. The Major Fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The fund financial statements begin on page 13 and provide detailed information about the Major Individual Funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts the **Municipality** uses to keep track of specific sources of funding and spending for a particular purpose. The **Municipality's** funds are all included in Governmental Funds.

The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statements allows the demonstration of sources and uses and/or budgeting compliance associated therewith (beginning on page 11).

**Figure A-1  
Required Component of  
Municipality of Fajardo Annual Financial Report**



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**Governmental Funds** – the entire **Municipality's** basic service are reported in the governmental funds, which focus in how money flows into out of those funds and the balances left at year-end that are available for future spending. Consequently, the governmental fund financial statements provide a detailed short-term view of the **Municipality** general information, general operation and the basis service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the **Municipality's** programs.

These funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Under this method, revenues are recognized when measurable and available. Expenditures and generally recognized when the related fund liability is incurred. This is the manner in which these funds are normally budgeted.

Since the governmental fund statements (current financial resources) are presented on a different measurement focus and basis of accounting than governmental-wide statements (total economic resources), a reconciliation of the differences are reflected on the page following each statement (see pages 14 and 16). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the Governmental Activities column (in the Government-Wide Statements).

**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 governmental financial statements. GASB Statement Number 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 alternative method), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established condition levels, the government may record all expenditures incurred (except for additions and improvements which extend the asset life) in lieu of depreciation. While the **Municipality** has acquired an asset management system which a) would allow the election to use the alternative methods, and b) will provide valuable management information, the **Municipality** has elected to initially implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

**Capital Assets Investments**

**Municipality** realized capital assets additions of \$5.0 millions and recognized depreciation expenses in the amount of \$1.3 millions. Principal investments consist of urban development, streets improvement, new buildings, motor vehicles and machinery and equipment acquisitions. Total Investment in Capital Assets, Net of related debt, is \$12.3 millions of 50% of total investment (net of depreciation). **Municipality** is in process to capitalize all infrastructures in order to be included on or before the fiscal year 2005-2006.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**Summary of Net Assets**

The **Municipality's** net assets increase by \$2.8 million over the course of this year's operations. The **Municipality's** Net Assets include investment in Capital Assets for \$12.3 millions, over \$22.0 millions restricted for future expenses, and \$4.2 millions constitute unrestricted net asset. The **Municipality's** net assets at the end of the fiscal year ended on June 30, 2003 were \$38.5 millions, as detailed on **Table 1**. For more detailed information see the Statement of Net Assets on page 11.

**Normal Impacts**

There are six basic (normal) transactions that will affect the comparability of the Net Assets summary presentation.

- **Net Results of Activities** – This will impact (increase/decrease) current assets and unrestricted net assets.
- **Borrowing for Capital** – This will increase current assets and long-term debts.

Current and non-current assets .....	\$40,307
Capital assets .....	<u>24,299</u>
<b>Total Assets</b> .....	<b><u>64,606</u></b>
Current liabilities .....	5,080
Long-term liabilities .....	<u>21,023</u>
<b>Total Liabilities</b> .....	<b><u>26,103</u></b>
Nets Assets:	
Investment in capital assets .....	12,269
Restricted .....	22,042
Unrestricted .....	<u>4,192</u>
<b>Total Net Assets</b> .....	<b><u>\$38,503</u></b>

- **Spending Borrowed Proceeds on New Capital** – This will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.
- **Spending of Non-borrowed Current Assets on New Capital** – This will (a) reduce current assets and increase capital assets and (b) will reduce unrestricted net assets and increase invested in capital assets, net of debt.
- **Principal Payment on Debt** – This will (a) reduce current assets and reduce long-term and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.
- **Reduction of Capital Assets through Depreciation** – This will reduce capital assets and invested in capital assets, net of debt.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
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**Current Year Impacts**

The following schedule (as detailed on **Table 2**) presents the revenues and expenses for the current fiscal year.

<b>Table 2</b>	
<b>Changes in Net Assets (in Thousands)</b>	
<b>For Fiscal Year Ending June 30, 2003</b>	
<b>Revenues:</b>	
Program Revenues:	
Charges for Services.....	\$ 2,998
Operating Grants and Contributions .....	6,758
Capital Grants and Contributions .....	-
General Revenues:	
Property Taxes.....	9,814
Volume of Business Taxes.....	4,180
Construction Taxes .....	4,821
Intergovernmental .....	2,399
Rent .....	25
Miscellaneous .....	865
<b>Total revenues</b> .....	<b>31,860</b>
<b>Expenses:</b>	
Mayor and Municipal Legislature .....	2,581
General Government.....	10,166
Public Safety .....	845
Public Works .....	2,616
Health and Sanitation.....	413
Culture and Recreation .....	799
Solid Waste Disposal .....	1,811
Human Services and Welfare .....	2,319
Urban Development .....	1,819
Education .....	4,106
Capital Outlay .....	795
Interest on Long-Term Debt.....	800
<b>Total expenses</b> .....	<b>29,070</b>
<b>Changes in net assets</b> .....	<b>2,790</b>
Net assets – beginning .....	35,713
<b>Net assets – ending</b> .....	<b>\$38,503</b>

**Normal Impacts**

There are five impacts on revenues and expenses as reflected below.

**Revenues:**

**Economic Condition** – which can reflect a declining, stable or growing economic environment and has substantial impact on property and volume of business tax revenues as well as public spending habits for building permits, elective user fees and volumes of consumption.

**Increase/Decrease in Municipality Approved Rates** – while certain tax rates are set by stature, the **Municipality** has significant authority to impose and periodically increase/decrease rates.

**Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)** – certain recurring revenues (states revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year revenues.

**Expenses:**

**Introduction of New Programs** – within the functional expense categories individual programs may be added or deleted to meet changing community needs.

**Increase/Decrease in Authorized Personnel** – changes in service demand may cause the **Municipality** to increase/decrease authorized staffing.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**Salary Increases (cost of living, merit and market adjustment)** – the ability to attract and retain human and intellectual resources requires the **Municipality** to strive to approach a competitive salary range position in the marketplace.

**Inflation** – while overall inflation appears to be reasonably modest, the **Municipality** is a major consumer of certain commodities such as chemicals and supplies, fuels and parts. Some functions may experience unusual commodity specific increases.

**Current Year Impacts**

**Revenues:**

**Property Taxes** which appear flat was actually a result of a declining, stable or growing economic environment and has substantial impact on property and volume of business tax revenues as well as public spending habits for building permits, elective user fees and volumes of consumption.

**Charges for Services** were primarily for collection from solid waste disposal for the amount of \$3 millions.

**Intergovernmental Revenues** which appear flat was actually a result of a declining, stable or growing economic environment and has substantial impact on property and volume of business tax revenues as well as public spending habits for building permits, elective user fees and volumes of consumption.

**Expenses:**

**Introduction of New Programs** – within the functional expense categories individual programs may be added or deleted to meet changing community needs.

**Increase/Decrease in Authorized Personnel** – changes in service demand may cause the **Municipality** to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent 35% of the **Municipality's** operating cost.

**Net Assets:**

Net Assets reflect an increase of \$2,790,326 corresponding to an increase in revenues over expenses.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

As the **Municipality's** completed the year, its governmental funds reported fund balances of \$30.1 millions. Of this total amount, \$12.4 or 41% constitute unreserved fund balance, which is available for appropriation for the general purposes of the programs administered by the **Municipality**.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**General Fund Budgetary Highlights:**

The total budget for the **Municipality** was \$23.8 millions and actual spending was \$19.7 millions. Total expenditures represented 83% of total budget availability for the period. Current year budgetary fund balance was positive in the amount of \$7.9 millions corresponding to an increase in revenues of \$3.9 million and economies in appropriations of \$4 million.

**Economic Factors and Next Year's Budgets**

For the fiscal year 2002-03, the **Municipality** actual revenues are \$33.7 millions, exceeding the budget amount for \$3.9 millions.

**CONTACTING THE MUNICIPALITY'S OFFICE OF FINANCIAL MANAGEMENT**

This report is designed to provide a general overview of the **Municipality's** finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the **Municipality's** Finance Department at (787) 863-1400.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**STATEMENT OF NET ASSETS**

JUNE 30, 2003

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and Investments.....	\$23,860,528
Cash with Fiscal Agent.....	9,586,792
Receivables (net):	
Property Taxes.....	68,004
Federal Grants.....	5,937,826
Others.....	<u>853,668</u>
Capital Assets (Note 1 & 6):	
Land, Improvements, and Construction in Progress.....	1,250,850
Other Capital Assets, [Net of Depreciation].....	<u>23,048,398</u>
Total Capital Assets.....	<u>24,299,248</u>
<b>TOTAL ASSETS</b> .....	<b><u>64,606,066</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses.....	1,775,964
Deferred Revenue.....	3,304,643
Long-Term Liabilities (Note 7):	
Due within One Year.....	2,416,509
Due in More than One Year.....	<u>18,605,717</u>
<b>Total Liabilities</b> .....	<b><u>26,102,833</u></b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt.....	12,269,248
Restricted for:	
Head Start Program.....	3,286,231
Debt Service.....	2,203,594
Community Development Projects.....	1,891,791
Other Purposes.....	14,660,288
Unrestricted.....	<u>4,192,081</u>
<b>TOTAL NET ASSETS</b> .....	<b><u>\$38,503,233</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature .....	\$ 2,581,441	\$ -	\$ -	\$ -	(\$ 2,581,441)
General Government .....	10,165,711	-	269,385	-	(9,896,326)
Public Safety .....	844,553	-	-	-	(844,553)
Public Works .....	2,615,975	-	9,465	-	(2,606,510)
Health and Sanitation .....	413,467	-	-	-	(413,467)
Solid Waste Disposal .....	1,811,357	2,997,602	-	-	1,186,245
Culture and Recreation .....	799,287	-	-	-	(799,287)
Human Services and Welfare .....	2,319,429	-	942,934	-	(1,376,495)
Urban Development .....	1,818,854	-	1,458,599	-	(360,255)
Education .....	4,105,796	-	4,078,077	-	(27,719)
Capital Outlay .....	794,462	-	-	-	(794,462)
Interest on Long-Term Debt .....	799,816	-	-	-	(799,816)
<b>Total Governmental Activities .....</b>	<b>\$29,070,148</b>	<b>\$ 2,997,602</b>	<b>\$ 6,758,460</b>	<b>\$ -</b>	<b>(19,314,086)</b>
<b>General Revenues:</b>					
Taxes:					
Property Taxes, levied for General Purposes .....					7,804,273
Property Taxes, levied for Debt Service .....					2,009,544
Volume of Business Taxes .....					4,180,049
Construction Taxes .....					4,820,797
Intergovernmental .....					2,399,516
Rent .....					24,667
Miscellaneous .....					865,566
<b>Total General Revenues .....</b>					<b>22,104,412</b>
<b>CHANGE IN NET ASSETS .....</b>					<b>2,790,326</b>
Net Assets – Beginning of Year .....					35,712,907
<b>NET ASSETS – ENDING OF YEAR .....</b>					<b>\$38,503,233</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**BALANCE SHEET – GOVERNMENTAL FUNDS**

JUNE 30, 2003

	<u>GENERAL</u>	<u>HEAD START FUND</u>	<u>DEBT SERVICE FUND</u>	<u>CDBG FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>						
Cash and Investments (Note 1).....	\$15,262,963	\$ 130,379	\$ -	\$ 446,212	\$ 8,020,973	\$23,860,527
Cash with Fiscal Agent .....	-	-	3,311,630	-	6,275,162	9,586,792
Receivables:						
Property Taxes .....	12,477	-	55,527	-	-	68,004
Federal Grants.....	-	4,282,687	-	1,466,374	188,765	5,937,826
Due from Other Funds.....	2,351,395	-	-	-	-	2,351,395
Others.....	<u>806,942</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,726</u>	<u>853,668</u>
<b>Total Assets .....</b>	<b><u>\$18,433,777</u></b>	<b><u>\$ 4,413,066</u></b>	<b><u>\$ 3,367,157</u></b>	<b><u>\$ 1,912,586</u></b>	<b><u>\$14,531,626</u></b>	<b><u>\$42,658,212</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts Payable.....	\$ 223,371	\$ 113,073	\$ 800,000	\$ 20,795	\$ 189,275	\$ 1,346,514
Accrued Interest.....	-	-	356,083	-	-	356,083
Due to Governmental Units .....	36,168	-	-	-	37,199	73,367
Due to Other Funds .....	-	1,013,762	7,480	-	1,330,153	2,351,395
Deferred Revenues:						
Volume of Business Tax.....	3,063,141	-	-	-	-	3,063,141
Local Grants .....	267,477	-	-	-	-	267,477
Federal Grants.....	<u>-</u>	<u>3,286,231</u>	<u>-</u>	<u>1,453,468</u>	<u>320,437</u>	<u>5,060,136</u>
<b>Total Liabilities .....</b>	<b><u>3,590,157</u></b>	<b><u>4,413,066</u></b>	<b><u>1,163,563</u></b>	<b><u>1,474,263</u></b>	<b><u>1,877,064</u></b>	<b><u>12,518,113</u></b>
Fund Balances:						
Reserve For:						
Encumbrances.....	2,438,368	-	-	-	-	2,438,368
Debt Service .....	-	-	2,203,594	-	-	2,203,594
Other Purposes .....	-	-	-	438,323	12,654,562	13,092,885
Unreserved .....	<u>12,405,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,405,252</u>
<b>Total Fund Balances.....</b>	<b><u>14,843,620</u></b>	<b><u>-</u></b>	<b><u>2,203,594</u></b>	<b><u>438,323</u></b>	<b><u>12,654,562</u></b>	<b><u>30,140,099</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b><u>\$18,433,777</u></b>	<b><u>\$ 4,413,066</u></b>	<b><u>\$ 3,367,157</u></b>	<b><u>\$ 1,912,586</u></b>	<b><u>\$14,531,626</u></b>	<b><u>\$42,658,212</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2003

**Total Fund Balances – Governmental Funds (Page 13) ..... \$30,140,099**

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 11) are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets .....	\$ 1,250,850	
Depreciable Capital Assets .....	34,214,232	
Infrastructure Assets .....	272,337	
Accumulated Depreciation .....	<u>(11,438,171)</u>	
Total Capital Assets .....		24,299,248

Some of the **Municipality's** revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:

Head Start.....	3,286,231	
CDBG.....	1,453,468	
Municipal Revenue Collection Agency.....	12,477	
Others .....	<u>333,935</u>	
Total Deferred Revenues .....		5,086,111

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable.....	13,530,000	
Compensated Absences .....	1,894,046	
Municipal Revenue Collection Agency.....	316,057	
Claims and Assessments.....	<u>5,282,122</u>	
Total Long-Term Liabilities.....		<u>(21,022,225)</u>

**Total Net Assets of Governmental Activities (Page 11) ..... \$38,503,233**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>GENERAL</u>	<u>HEAD START FUND</u>	<u>DEBT SERVICE FUND</u>	<u>CDBG FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>						
Property Taxes .....	\$ 7,791,796	\$ -	\$ 2,009,544	\$ -	\$ -	\$ 9,801,340
Volume of Business Taxes .....	4,180,049	-	-	-	-	4,180,049
Federal Assistances .....	-	4,105,796	-	1,180,687	759,906	6,046,389
Intergovernmental .....	2,399,516	-	-	-	347,943	2,747,459
Licenses and Permits .....	4,820,797	-	-	-	-	4,820,797
Rent .....	24,666	-	-	-	-	24,666
Miscellaneous .....	3,643,168	-	-	-	-	3,643,168
Total Revenues.....	<u>22,859,992</u>	<u>4,105,796</u>	<u>2,009,544</u>	<u>1,180,687</u>	<u>1,107,849</u>	<u>31,263,868</u>
<b>EXPENDITURES</b>						
Current:						
Mayor and Municipal Legislature.....	2,581,441	-	-	-	-	2,581,441
General Government .....	5,739,707	-	-	-	139,307	5,879,014
Public Safety.....	825,894	-	-	-	18,660	844,554
Public Works.....	2,615,837	-	-	-	138	2,615,975
Health and Sanitation .....	2,224,823	-	-	-	-	2,224,823
Culture and Recreation.....	799,287	-	-	-	-	799,287
Human Services and Welfare.....	1,411,843	-	-	-	907,587	2,319,430
Urban Development.....	-	-	-	1,100,794	3,768,932	4,869,726
Education.....	-	4,105,796	-	-	-	4,105,796
Capital Outlay .....	91,600	-	-	-	640,466	732,066
Debt Service:						
Principal .....	-	-	1,017,000	-	-	1,017,000
Interest and Other Charges .....	-	-	799,815	-	-	799,815
Total Expenditures.....	<u>16,290,432</u>	<u>4,105,796</u>	<u>1,816,815</u>	<u>1,100,794</u>	<u>5,475,090</u>	<u>28,788,927</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers – In .....	-	-	149,273	-	2,446,798	2,596,071
Transfers – Out .....	(2,596,071)	-	-	-	-	(2,596,071)
Total Other Financing Sources and Uses.....	<u>(2,596,071)</u>	<u>-</u>	<u>149,273</u>	<u>-</u>	<u>2,446,798</u>	<u>-</u>
Net Change in Fund Balances.....	3,973,489	-	342,002	79,893	(1,920,443)	2,474,941
Fund Balance – Beginning, as Restated (Note 15) .....	<u>10,870,131</u>	<u>-</u>	<u>1,861,592</u>	<u>358,430</u>	<u>14,575,005</u>	<u>27,665,158</u>
<b>FUND BALANCES – ENDING .....</b>	<b><u>\$14,843,620</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,203,594</u></b>	<b><u>\$ 438,323</u></b>	<b><u>\$12,654,562</u></b>	<b><u>\$30,140,099</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**Net Change in Fund Balances – Total Governmental Funds (Page 15) ..... \$ 2,474,941**

Amounts reported for Governmental Activities in the Statement of Activities (Page 12)  
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of  
Activities the cost of those assets is allocated over their estimated useful lives and reported  
as depreciation expense. In the current period, these amounts are:

Urban Development and Capital Outlay .....	\$ 5,053,740	
Depreciation Expense .....	<u>(1,325,342)</u>	
Excess of Capital Outlay over Depreciation Expense .....		3,728,398

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. ....		3,493,502
--	--	-----------

Revenues in the Statement of Revenues that correspond to prior year resources are recorded as revenue in the statement of activities. ....		(2,896,896)
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Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were. ....		1,212,000
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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.  
These activities consist of:

Decrease in Compensated Absences .....	\$ 60,503	
Increase in Claims and Judgments .....	<u>(5,282,122)</u>	
Total Additional Expenditures .....		<u>(5,221,619)</u>

**Change in Net Assets of Governmental Activities (Page 12) ..... \$ 2,790,325**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Fajardo, Puerto Rico (Municipality)** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

The accompanying basic financial statements of the **Municipality** have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The **Municipality** adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2002. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the **Municipality** has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the **Municipality** has implemented the following GASB Statements in the current fiscal year: GASBS No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the **Municipality** and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2003, and for the

fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**A. Financial Reporting Entity**

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Municipality's** financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Municipality** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Municipality**.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2003, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

**B. Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Governmental Fund Financial Statements**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)

B. Measurement Focus and Basis of Accounting (continuation)

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2003, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the **Statement of Net Assets** is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The **Statement of Net Assets** presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The **Statement of Activities** is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the **Balance Sheet**, the **Statement of Revenues, Expenditures, and Changes in Fund Balances**, the **Statement of Net Assets**) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continuation)

**C. Financial Statement Presentation (continuation)**

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and separate explanation for each differences.

The **Municipality** reports its financial position (**Balance Sheet**) and results of operations (**Statement of Revenues, Expenditures and Changes in Fund Balance**) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The **Municipality** reports the following major fund:

**General Fund** – This is the general operating fund of the **Municipality**. It is used to account for all financial resources, except those required to be accounted for in another fund.

**Head Start Fund** – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

**Debt Service Fund** – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests

**CDBG Fund** – This is the fund used to account for all the transactions of the Community Development Block Grant Program. The primary objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide **Statement of Net Assets**.

**D. Budgetary Data**

The **Municipality's** annually adopts the Budget Resolution for all operating funds of the **Municipality** except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the

modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The **Municipality's** Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the **Municipality** (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the **Municipality**; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. **Municipality's** Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the **Municipality** to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)**

**D. Budgetary Data (continuation)**

- 7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

- 1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
- 2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 9).
- 3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
- 4. Certain accrued liabilities and other debts are not included in the budgetary basis.
- 5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**E. Cash, Cash Equivalent and Investment**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

**F. Receivable**

Receivable are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

**G. Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**H. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives: (See Table 1)

TABLE 1	
CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Infrastructure	10-50
Motor Vehicles	5
Machinery and Equipments	5-10

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continuation)

**I. Compensated Absences**

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality's** employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria:

1. The **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 7 on page 24).

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2003 (Table 2).

<b>Table 2</b>					
<b>BALANCE</b>		<b>RETIREMENTS</b>	<b>BALANCE</b>		<b>LONG-TERM</b>
<b>JULY 1,</b>	<b>NEW</b>	<b>AND CURRENT</b>	<b>JUNE 30,</b>	<b>CURRENT</b>	<b>PORTION</b>
<b>2002</b>	<b>ISSUES</b>	<b>MATURATES</b>	<b>2003</b>	<b>PORTION</b>	
<u>\$1,954,549</u>	<u>\$ -</u>	<u>\$ 60,503</u>	<u>\$1,894,046</u>	<u>\$1,120,506</u>	<u>\$ 773,537</u>

**J. Insurance**

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the **Municipality**.

**K. Interfund Transactions**

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

*Interfund Transfers* – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

**L. Reservations of Fund Balance – Governmental Funds**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for encumbrances, debt service, and other specific purposes are examples of the latter. The **Municipality** has the following reservations of fund balance:

*Encumbrance* – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in the budgetary comparison schedule.

*Debt Service* – Represents net assets available to finance future debt service payments.

**M. Claims and Judgments**

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)**

**N. Use of Estimates**

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

**NOTE 2 CASH, CASH EQUIVALENTS  
AND INVESTMENTS**

Investments consist of certificates of deposit. The Municipality's cash, cash equivalent and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant to the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2003, the market value of investments recorded in Special Revenue Fund approximated its carrying value as follow: (See Table 3)

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	TABLE 3 EXPIRATION DATE
Popular Bank of Puerto Rico ...	111000020	\$ 1,000,000	1.80%	07-09-03
Popular Bank of Puerto Rico ...	111000021	500,000	1.80%	07-04-03
Popular Bank of Puerto Rico ...	111000025	1,000,000	1.80%	07-02-03
Popular Bank of Puerto Rico ...	111000026	500,000	1.80%	07-02-03
Popular Bank of Puerto Rico ...	111000028	1,000,000	1.80%	07-11-03
Popular Bank of Puerto Rico ...	111000030	3,000,000	1.80%	07-21-03
Popular Bank of Puerto Rico ...	111000031	2,000,000	1.80%	07-21-03
Popular Bank of Puerto Rico ...	111000035	500,000	1.80%	07-14-03
Popular Bank of Puerto Rico ...	111000037	1,500,000	1.80%	07-14-03
Popular Bank of Puerto Rico ...	111000038	1,000,000	1.80%	07-14-03
<b>TOTAL</b> .....		<b>\$12,000,000</b>		

The investments are distributed by the amounts of \$10,000,000 to the General Fund and \$2,000,000 to the Special Revenue Fund.

**NOTE 3 OTHERS RECEIVABLES**

As of June 30, 2003, the amount of \$761,257 corresponds to the Solid Waste Disposal, \$78,685 for final liquidation of PR Electric Power Authority, and \$13,726 from others.

**NOTE 4 INTERFUND TRANSFER AND BALANCES**

**A. INTERFUND TRANSFERS**

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. (See Table 4)

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$ 149,273	Debt payment
General Fund	Other Fund	<u>2,446,798</u>	Specific project funding
<b>Total</b>		<b><u>\$2,596,071</u></b>	

Interfund receivables and payables at June 30, 2003 are summarized as follows: (See Table 5)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 5 AMOUNT
General Fund	Debt Service Fund	\$ 7,480
General Fund	Other Fund	1,330,153
General Fund	Head Start Fund	<u>1,013,762</u>
<b>TOTAL</b>		<b><u>\$2,351,395</u></b>

**NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2003, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 6)

TABLE 6	AMOUNT
Water Company .....	\$ 8,466
General Service Administration .....	6,192
Retirement System Administration .....	3,319
AEELA .....	<u>18,191</u>
<b>Total Due to Governmental Units</b> .....	<b><u>\$ 36,168</u></b>

**COMMONWEALTH OF PUERTO RICO  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 6 CAPITAL ASSETS**

Capital Assets activities for the fiscal year ended June 30, 2003 was as follows (See Table 7)

TABLE 7	BALANCE JULY 1, 2002	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2003
<b>DESCRIPTION</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 524,407	\$ -	\$ -	\$ 524,407
Others.....	717,207	9,236	-	726,443
<b>Total Non-Depreciable Capital Assets.....</b>	<b>1,241,614</b>	<b>9,236</b>	<b>-</b>	<b>1,250,850</b>
<b>Depreciable Capital Assets:</b>				
Buildings.....	26,554,734	4,128,330	-	30,683,064
Infrastructure.....	-	272,337	-	272,337
Machinery and Equipment.....	1,190,793	442,838	-	1,633,631
Motor Vehicles.....	1,696,538	200,999	-	1,897,537
<b>Total Depreciable Capital Assets.....</b>	<b>29,442,065</b>	<b>5,044,504</b>	<b>-</b>	<b>34,486,569</b>
<b>Less Accumulated Depreciation:</b>				
Buildings.....	(8,404,212)	(613,661)	-	(9,017,873)
Infrastructure.....	-	(5,447)	-	(5,447)
Machinery and Equipment.....	(588,600)	(326,726)	-	(915,326)
Motor Vehicles.....	(1,120,017)	(379,508)	-	(1,499,525)
<b>Total Accumulated Depreciation.....</b>	<b>(10,112,829)</b>	<b>(1,325,342)</b>	<b>-</b>	<b>(11,438,171)</b>
<b>Total Depreciable Capital Assets (Net).....</b>	<b>19,329,236</b>	<b>3,719,162</b>	<b>-</b>	<b>23,048,398</b>
<b>CAPITAL ASSETS, NET.....</b>	<b>\$20,570,850</b>	<b>\$ 3,728,398</b>	<b>\$ -</b>	<b>\$24,299,248</b>

Depreciation expenses were charged to governmental functions/programs as follows: (See Table 8)

TABLE 8	AMOUNT
General Government.....	\$ 5,447
Public Safety.....	210,048
Public Works.....	440,031
Culture and Recreation.....	56,155
<b>Total Depreciation Expenses.....</b>	<b>\$1,325,342</b>

General obligations bonds and notes payable as of June 30, 2003, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$11,435,000, Series 1999-98, for construction purposes, payable in annual installments ranging from \$305,000 to \$1,130,000, excluding variable interests from 5.190% to 6.340% until July 1, 2016.....	\$ 9,645,000
<b>Total General Obligations Bonds.....</b>	<b>9,645,000</b>

**Special Obligations Notes:**

\$1,496,000, Series 1983-84, for construction purposes, payable in annual installments ranging from \$18,000 to \$143,000, excluding interests at 9.125%, until January 1, 2008.....	605,000
\$865,000, Series 1989-90, for construction purposes, payable in annual installments ranging from \$20,000 to \$105,000, excluding variable interest from 3.263% to 8.600%, until July 1, 2004.....	105,000
\$3,270,000 Series 1991-92, for construction purposes, payable in annual installments ranging from \$120,000 to \$355,000, excluding variable interest from 4.163% to 6.363%, until July 1, 2006.....	990,000

**NOTE 7 GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE**

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality.

continue

**COMMONWEALTH OF PUERTO RICO  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 7 GENERAL LONG-TERM DEBTS (continuation)**

DESCRIPTION	AMOUNT
<b>Special Obligations Notes:</b>	
\$370,000 Series 1994-95, for construction purposes, payable in annual installments ranging from \$5,000 to \$35,000, excluding variable interests from 6.106% to 8.206%, until July 1, 2019.....	\$ 310,000
\$2,500,000, Series 1986-87, for operational purposes, payable in annual installments of \$125,000, excluding variable interests from 5.000% to 8.500%, until July 1, 2006.....	375,000
\$2,500,000, Series 1996, for construction purposes, payable in annual installments ranging to \$140,000 to \$650,000, excluding interests at 3.00%, until August 1, 2005; (paid through CDBG funds).....	1,500,000
Total Special Obligations Notes.....	3,885,000
<b>Total General and Special Obligations.....</b>	<b>5,130,000</b>

The Municipality's general obligations long-term note retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality, except for the Section 108 Loan that was paid through CDBG Program Fund.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2003 are as follows (See Table 9):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TABLE 9 TOTAL PAYMENT
2004	\$ 1,296,000	\$ 851,068	\$ 2,147,068
2005	1,710,000	751,703	2,461,703
2006	1,785,000	638,015	2,423,015
2007	711,000	541,445	1,252,445
2008	768,000	496,613	1,264,613
2009-2014	3,950,000	1,807,608	5,757,608
2015-2019	3,275,000	454,745	3,729,745
2020-2024	35,000	2,872	32,872
<b>TOTAL</b>	<b>13,530,000</b>	<b>5,544,068</b>	<b>19,074,068</b>

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts (See Table 10):

TABLE 10 DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003
Property Taxes - MRCC.....	\$ -	\$ -	\$ 316,058	\$ 316,058
Claims and Assessments ...	-	5,282,122	-	5,282,122
Solid Waste Disposal.....	10,040,711	-	10,040,711	-
Compensated Absences.....	1,954,549	-	(80,503)	1,894,046
<b>TOTAL .....</b>	<b>11,995,260</b>	<b>5,282,122</b>	<b>10,296,266</b>	<b>7,492,226</b>

**C. CHANGES IN GENERAL LONG-TERM DEBTS**

The following is a summary of changes in long-term debts for the year ended June 30, 2003: (See Table 11)

TABLE 11 DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$10,445,000	\$ -	\$ 800,000	\$ 9,645,000	\$ 450,000	\$ 9,195,000
Special.....	5,162,000	-	1,277,000	3,885,000	846,000	3,039,000
Others Debts .	11,995,260	5,282,122	10,296,266	7,492,226	1,120,509	6,371,717
<b>TOTAL.....</b>	<b>27,602,260</b>	<b>5,282,122</b>	<b>12,373,266</b>	<b>21,022,226</b>	<b>2,416,509</b>	<b>18,605,717</b>

**NOTE 8 DEBT RETIREMENT**

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 9).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 7). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**NOTE 9 PROPERTY TAXES**

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.53% for real property and 6.53% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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**COMMONWEALTH OF PUERTO RICO  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 9 PROPERTY TAXES (continuation)**

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$50,000, to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2003, the Debt Service Fund presented a receivable of \$68,004 for the collection of additional property taxes during the next 60 days after end of year.

**NOTE 10 VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**NOTE 11 INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**NOTE 12 EMPLOYEE'S RETIREMENT PLAN**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The **Municipality** adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The **Municipality** contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invest in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)**

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program, and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows (See Table 12)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 12
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.	
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.	
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).	

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2003 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the

United States of America. An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately **\$370,505**. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2003. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

**NOTE 13 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS**

State and Federal laws and regulations require the **Municipality** to place a final cover on its landfill when closed and perform certain maintenance and monitoring function at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on futures closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The **Municipality** has performed a study of the activities that need to be implemented at the **Municipality's** landfill to comply with applicable laws and regulations. As result of this study, the **Municipality** has decided to privatize the solid waste disposal service. As part of the agreement the contractor will assume the closure and post-closure costs during the next thirty years, releasing the **Municipality** of the estimated liability for future closure and post-closure care costs.

Accordingly, as of June 30, 2003 the **Municipality** has not made contributions to finance closure and post-closure care costs.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 14 CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of one (1) lawsuit related to excessive used of force, to which the legal counsel has estimate a potential loss of \$5,209,280, and other lawsuits with estimated loss of \$72,843, for a total of \$5,282,122. These lawsuits are in appeal in other Courts. Accordingly, the financial statements include adjustments in the Long-Term Liabilities because will be paid with future resources if the Courts decided in against of the **Municipality**.

**B. FEDERAL GRANTS**

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsels of the **Municipality** have advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

**NOTE 15 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS**

During fiscal year 2002-2003, the **Municipality** implemented several new accounting standards and an interpretation issued by GASB.

GASBS No. 34 as amended by GASBS No. 37 establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

GASBS No. 38 requires certain note disclosures when GASBS No. 34 is implemented. The provisions of these new standards have been incorporated into the basic financial statements and notes.

GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (1) governmental fund liabilities and (2) general long-term liabilities of the government. The provisions of this interpretation have been incorporated into the basic financial statements and notes.

These new accounting standards caused most of the accounting changes, changes in reporting entity, and restatements described on the ensuing discussions below. Changes and restatements for reasons other than the adoption of the above pronouncements are also explained below.

Also, restatements were presented for prior period adjustment of Special Revenue Funds of the Audited Financial Statements as of June 30, 2002.

**Table 14** reconciles the June 30, 2002 Fund Balance, as previously reported to Beginning Fund Balance as restated, July 1, 2002.

<b>FUND BALANCE RESTATED</b>		<b>Table 14</b>	
	<b>DEBT SERVICE FUND</b>	<b>CDBG FUND</b>	<b>OTHER GOVERNMENTAL FUND</b>
Fund Balances, as Previously Reported			
June 30, 2002.....	\$ 2,978,725	\$ -	\$ 3,397,722
<b>Transactions Not Recorded on Prior Year:</b>			
Cash Balances of Bonds and Notes .....	-	-	6,916,447
Cash Balance of Special Funds.....	-	-	1,676,439
Accounts Payable Restatement.....	-	-	1,867,373
<b>Revenue Recognition as per GASB No. 33:</b>			
Section 8 Fund Balance .....	-	-	41,135
HOPWA Fund Balance .....	-	-	33,220
FEMA Fund Balance .....	-	-	624,012
CDBG Fund Balance.....	-	358,430	-
Local Law Enforcement Fund Balance .....	-	-	18,857
<b>Change in Accounting Principles:</b>			
Principal and Interest Payable .....	(1,117,133)	-	-
Beginning Fund Balances, as Restated, July 1, 2002.....	<u>\$ 1,861,592</u>	<u>\$ 358,430</u>	<u>\$14,575,005</u>

**NOTE 16 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT**

The Governmental Accounting Standards Board (GASB) issued GASBS No. 39, *Determining Whether Certain Organizations are Component Units*, which is effective for fiscal year beginning after June 15, 2003. The **Municipality** has not adopted the requirement of this statement.

**END OF NOTES**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>BUDGETARY FUND BALANCE, JULY 1, 2002.....</b>	<b><u>\$10,870,131</u></b>	<b><u>\$10,870,131</u></b>	<b><u>\$10,870,131</u></b>	<b><u>\$ -</u></b>
Resources (Inflows):				
Property Taxes.....	7,589,581	7,589,581	7,791,796	202,215
Volume of Business Taxes.....	3,386,000	3,386,000	4,180,049	794,049
Intergovernmental Revenues.....	2,320,103	2,320,103	2,399,516	79,416
License and Permits.....	1,122,900	1,122,900	4,820,797	3,697,897
Rent.....	65,000	65,000	24,667	(40,333)
Miscellaneous .....	<u>4,489,897</u>	<u>4,489,897</u>	<u>3,635,687</u>	<u>(854,210)</u>
Total Resources (Inflows).....	<u>18,973,481</u>	<u>18,973,481</u>	<u>22,852,512</u>	<u>3,879,031</u>
Amounts Available for Appropriation .....	<u>29,843,612</u>	<u>29,843,612</u>	<u>33,722,643</u>	<u>3,879,031</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature .....	2,676,613	3,518,452	2,928,200	590,252
General Government.....	5,746,610	5,918,659	4,804,762	1,113,897
Public Safety .....	1,098,764	1,091,098	844,751	246,347
Public Works .....	5,406,508	3,978,003	3,875,449	102,564
Health and Sanitation.....	534,869	3,166,526	2,225,092	941,434
Culture and Recreation .....	1,041,102	1,054,909	922,740	132,169
Human Services and Welfare .....	2,055,915	1,994,679	1,425,354	569,325
Capital Outlays.....	245,500	406,840	91,600	315,240
Transfer to Other Funds.....	<u>167,500</u>	<u>2,639,260</u>	<u>2,596,071</u>	<u>43,189</u>
Total Charges to Appropriations .....	<u>18,973,481</u>	<u>23,768,426</u>	<u>19,714,019</u>	<u>4,054,407</u>
<b>BUDGETARY FUND BALANCE, JUNE 30, 2003 .....</b>	<b><u>\$10,870,131</u></b>	<b><u>\$ 6,075,186</u></b>	<b><u>\$14,008,624</u></b>	<b><u>\$ 7,933,438</u></b>

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	<u>GENERAL FUND</u>
<b>Sources/Inflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 28).....	\$33,722,643
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes. ....	(10,870,131)
Prior-Year Revenue is not inflows of budgetary resources but are <i>revenues</i> for financial reporting purposes. ....	<u>7,480</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15) .....	<u>\$22,859,992</u>
<b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 28).....	\$19,714,019
Difference – Budget to GAAP:	
Prior-Year Expenditures are not outflows of budgetary resources but are <i>expenditures</i> for financial reporting purposes. ....	1,032,790
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes. ....	(1,860,307)
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes. ....	<u>(2,596,071)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15) .....	<u>\$16,290,431</u>

**NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance**

Budgetary Fund Balance, June 30, 2003 (See Page 28) .....	\$14,008,624
Timing Differences:	
Net Change in Encumbrances.....	(578,062)
Non-budgetary Items .....	<u>(1,025,310)</u>
Unrestricted Fund Balance, June 30, 2003 (See Page 13) .....	<u>\$12,405,252</u>

**END OF THIS SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program (USDA) .....	10.558	N/AV	<u>\$ 254,089</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grant (CDBG).....	14.218		1,100,795
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation.....	14.856		111,676
Section 8 Housing Choice Voucher Program .....	14.871		<u>303,508</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,515,979</u>
U.S. Department of Justice:			
Pass-Through Puerto Rico Department of Justice:			
Local Law Enforcement Block Grant .....	16.592	2000-LB-BX-0726	<u>18,660</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through Office of the Governor:			
Emergency Management Performance Grant (EMPG).....	83.552	N/AV	<u>3,490</u>
U. S. Department of Health and Human Services:			
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant.....	93.575	N/AV	168,097
Head Start Program .....	93.600	N/AV	<u>4,105,796</u>
Total U.S. Department of Health and Human Services .....			<u>4,273,893</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$6,066,111</u></b>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY GOVERNMENT AUDITING  
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Fajardo, Puerto Rico**. 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*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The **Municipality** in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

**NOTE 3 FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**NOTE 4 PASS-THROUGH GRANTOR'S NUMBER**

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**NOTE 5 LOAN OUTSTANDING**

There are Section 108 Loans outstanding for the amount of \$1,500,000 included in the Long-Term Liabilities of the Statement of Net Assets, for which Grantor do not imposes continuing compliance requirements.

**NOTE 6 MAJOR PROGRAMS**

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

**END OF NOTES**



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

**To the Honorable Mayor and  
Members of the Municipal Legislature  
Municipality of Fajardo, Puerto Rico**

We have audited the basic financial statements of **Municipality of Fajardo, Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2003, and have issued report thereon dated January 21, 2004. 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's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial 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*.

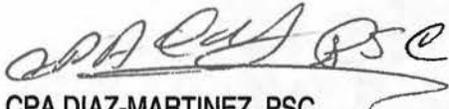
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

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

Page 2

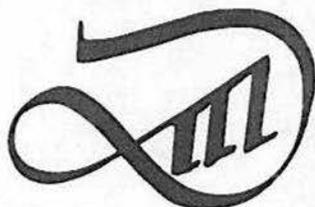
This report is intended solely for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is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



CPA DIAZ-MARTINEZ, PSC  
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Caguas, Puerto Rico  
January 21, 2004





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

**To the Honorable Mayor and  
Members of the Municipal Legislature  
Municipality of Fajardo, Puerto Rico**

**Compliance**

We have audited the compliance of the **Municipality of Fajardo, Puerto Rico (Municipality)** 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 fiscal year ended June 30, 2003. The **Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality's** compliance with those requirements and performing such others procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality's** compliance with those requirements.

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 03-III-05.

**Internal Control Over Compliance**

The management of the **Municipality** 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'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 the internal control over compliance in accordance with OMB Circular A-133.

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

Page 2

We noted certain matter 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'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-III-01 through 03-III-03.

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 in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

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

  
CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
January 21, 2004



**PART III**  
**FINDINGS AND QUESTIONED COSTS**

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

**Financial Statements**

Type of auditors' report issued:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

Internal control over financial reporting:

● Reportable condition(s) identified?  Yes  None Reported

● Material weakness(es) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

● Reportable condition(s) identified?  Yes  None Reported

● Material weakness (es) identified?  Yes  No

Type of auditors' report issued on compliance for Major Programs:

Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?

Yes  No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes  No

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**NO MATTER IS REPORTED.**

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

---

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-01</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ACTIVITIES ALLOWED OR UNALLOWED – ALLOWED COSTS</b>
<b>CONDITION</b>	During our activities allowed or unallowed – allowed costs test we found that the <b>Municipality</b> made disbursement from the Section 8 bank accounts that did not pertain to this federal program. Those funds were used to operate the HOPWA program, assistance received from the Municipality of San Juan, as result of requisitions of reimbursements of funds not received.
<b>CRITERIA</b>	All funds received from Federal and State Governments and other sources are exclusive use of specific authorized activities. The use of funds in activities or programs not authorized is unallowed. Code of Federal Regulations, 24 CFR, Subpart D, Section 982.151 (a) stated that the Municipality might use Housing Choice Voucher Program funds only for Housing Assistance payments to participating owners and for administrative fees.
<b>CAUSE</b>	<b>Municipality</b> made unallowed loans between funds.
<b>EFFECT</b>	<b>Municipality</b> failed to comply with the allowable use of funds.
<b>RECOMMENDATION</b>	We recommend management to reimburse funds, from local funds, to the Section 8 bank account in order to eliminate the loan between funds.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending of corrective action plan.

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continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING</b>	<b>NUMBER 03-III-02</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELIGIBILITY</b>
<b>CONDITION</b>	During our Participant Files Test we noted that six (6) participant files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart F, Section 5.617 (b) stated that as a condition of admission to, or continued occupancy of, any assisted unit, the <b>Municipality</b> shall require the family head and other such family members as it designated, on 24 CFR, Subpart B, Section 5.230 (a), to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the <b>Municipality</b> and to HUD such information as the <b>Municipality</b> and HUD determines to be necessary. Also it is stated on 24 CFR, Subpart K, Section 982.516 (g).
<b>CAUSE</b>	<b>Municipality</b> does not have consent forms that authorize the collection of income information from State Wages Information Collection Agencies (SWICA), and wages, net earnings from self-employment, payments of retirement income, and unearned income as referenced at 26 U.S.C. 6103. In addition, consent forms may authorize the collection of other information from applicants and participants to determine eligibility or level of benefits.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart F, Section 5.617(b); Subpart B, Section 5.230(a); and Subpart K, Section 982.516 (g).
<b>RECOMMENDATION</b>	We recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending of corrective action plan.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-03</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START PROGRAM (CFDA 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT STANDARDS</b>
<b>CONDITION</b>	The model for construction contracts over \$10,000.00 used by the <b>Municipality</b> did not contain the clauses detailed for compliance with the provisions for Davis Bacon Act, contract work hours and safety standards, granting access to GAO or other federal agency to books, documents, etc. and Energy Policy and Conservation Act as required by the program regulation.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart C, 45 CFR Section 92.36 (h) (3) (i) (1-13) stated that subgrantee's contract must contain provision in paragraph (i) of this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
<b>CAUSE</b>	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures, in order to assure that contractors comply with some requirements.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 45 CFR, Section 92.36 (3) (i) (1-13) of OMB Common Rules.
<b>RECOMMENDATION</b>	We recommend management to update its contract model according with federal requirements.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending of corrective action plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-04</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our waiting list test we noted that the order of applicants in the waiting list was based on family unit size for which the family qualifies under the PHA occupancy policy.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart E, Section 982.204 (d) (1) stated that the order of administration from the waiting list may not be based on family size, or on family unit size for which the family qualifies under the PHA occupancy policy.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart E, Section 982.204 (d) (1).
<b>CAUSE</b>	<b>Municipality</b> does not administrate the waiting list in accordance to the federal regulation and does not guarantee the correct selection of the applicants.
<b>RECOMMENDATION</b>	We recommend management to revise the waiting list and administrate it according to regulation.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending of corrective action plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-05</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START PROGRAM (CFDA 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	The Head Start Program did not obtain, for various Centers, the required licenses issued by the Puerto Rico Fire Department, "ARPE" and the Administration of Children and Families of the Puerto Rico Family Department.
<b>CRITERIA</b>	Code of Federal Regulations, 45 CFR, Part 1306, Subpart C, Section 1306.30 (c) and OMB Circular A-133 - Compliance Supplement, state that the facilities used by Head Start grantees must comply with applicable states and local requirements concerning license. The state requirement for the operation of Head Start center include a license granted by the Puerto Rico Fire Department, Health Department and Administration of Children and Families of the Puerto Rico Family Department.
<b>CAUSE</b>	The Head Start Center's failed to obtain or renew the required license issued by the Puerto Rico Fire Department, Health Department and/or the Administration of Children and Families of the Puerto Rico Family Department.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 45 CFR, Part 1306, Subpart C, Section 1306.30 (c) and OMB Circular A-133 – Compliance Supplement.
<b>RECOMMENDATION</b>	We recommend management to perform the required improvements and obtain the required licenses from the state agencies.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**END OF SCHEDULE**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FAJARDO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**(1) Audit Findings that have been Fully Corrected:**

**FISCAL YEAR 2001**

**Finding Number**      01-1      **Property and Equipment**  
**Municipality does not maintain adequate control over its fixed assets.**

**CFDA Number**      All Programs

**Questioned Cost**      None

**Auditee Comments**      This is not a valid compliance requirement for all programs. Also, system and procedures are corrected

**(2) Audit Findings not Corrected or Partially Corrected:**

NONE

**(3) Corrective action taken is significantly different from corrective action previously reported:**

NONE

**(4) Audit findings is no longer valid:**

**FISCAL YEAR 2002**

**Finding Number**      02-1      **Cash Management**  
**Municipality had a claim for costs reimbursements due since October 1995.**

**CFDA Number**      14.241

**Questioned Cost**      None

**Auditee Comments**      This is not a valid compliance requirement. This is a Due from General Fund and the **Municipality** should maintain the claim to the Municipality of San Juan, Puerto Rico.

**FISCAL YEAR 2001**

**Finding Number**      01-2      **Contents of Personnel Files**  
**Municipality's personnel files disclosed that relevant information is missing.**

**CFDA Number**      All Programs

**Questioned Cost**      None

**Auditee Comments**      This is not a valid compliance requirement.

**END OF SCHEDULE**

FORM **SF-SAC**  
(3-20-2001)

U.S. DEPT. OF COMM.- Econ. and Stat. Admin.- U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates On or After January 1, 2001**

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

**Federal Audit Clearinghouse**  
1201 E. 10th Street  
Jeffersonville, IN 47132

**PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)**

<b>1. Fiscal period ending date for this submission</b> Month Day Year Fiscal Period End Dates Must Be On or After January 1, 2001 06 / 30 / 2003		<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit										
<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - Months		<b>FEDERAL GOVERNMENT USE ONLY</b>	<b>4. Date received by Federal clearinghouse</b>									
<b>5. Employer Identification Number (EIN)</b> a. Auditee EIN: <table border="1"><tr><td>6</td><td>6</td><td>0</td><td>4</td><td>3</td><td>3</td><td>5</td><td>6</td><td>6</td></tr></table>			6	6	0	4	3	3	5	6	6	b. Are multiple EINs covered in this report?    1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)
6	6	0	4	3	3	5	6	6				

**6. AUDITEE INFORMATION**

a. Auditee name  
**MUNICIPALITY OF FAJARDO**

b. Auditee address (Number and street)  
P.O. BOX 865  
City  
**FAJARDO**  
State ZIP + 4 Code  
PR                      00738-8665

c. Auditee contact  
Name  
**ANIBAL MELENDEZ RIVERA**  
Title  
**MAJOR**

d. Auditee contact telephone  
( 787 ) 863 - 1802

e. Auditee contact FAX (Optional)  
( 787 ) 860 - 1320

f. Auditee contact E-mail (Optional)

**7. AUDITOR INFORMATION (To be completed by auditor)**

a. Auditor name  
**CPA DIAZ-MARTINEZ, PSC**

b. Auditor address (Number and street)  
P.O. BOX 8369  
City  
**CAGUAS**  
State ZIP + 4 Code  
PR                      00726-8369

c. Auditor contact  
Name  
**CPA JOSE E. DIAZ MARTINEZ**  
Title  
**PRESIDENT**

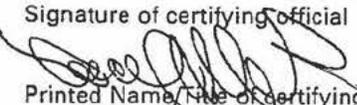
d. Auditor contact telephone  
( 787 ) 746 - 0510

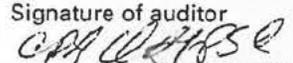
e. Auditor contact FAX (Optional)  
( 787 ) 746 - 0525

f. Auditor contact E-mail (Optional)  
**CPADIAZMARTINEZ@HOTMAIL.COM**

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

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

Signature of certifying official  
  
Date Month Day Year  
02 / 05 / 04  
Printed Name/Title of certifying official  
**ANIBAL MELENDEZ RIVERA, MAYOR**

Signature of auditor  
  
Date Month Day Year  
02 / 04 / 04

**PART I GENERAL INFORMATION - Continued**

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

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

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

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

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

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

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

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

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

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FORM SF-SAC (3-20-2001)

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

**10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

**11. AUDIT FINDINGS**

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) <sup>3</sup> (a)	Audit finding reference number(s) <sup>4</sup> (b)
Federal Agency Prefix <sup>1</sup>	Extension <sup>2</sup>							
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 254,089 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 1,100,795 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .856	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 MODERATE REHABILITATION	\$ 111,676 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM	\$ 303,508 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	AEN	03-III-01,03-III-02,03-III-04
1	6 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 18,660 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	3 .552	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EMERGENCY MANAGEMENT PERFORMANCE GRANT	\$ 3,490 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 168,097 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 4,105,796 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	IN	03-III-03,03-III-05
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		

**TOTAL FEDERAL AWARDS EXPENDED** →

\$ 6,066,111 .00

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

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

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

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

<sup>4</sup> N/A for NONE

**PART I** Item 5 Continuation Sheet

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

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

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