OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE HATILLO
AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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DE ASUNTOS MUNICIPALES
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Cmpt. Abril 1, 2003

MUNICIPALITY OF HATILLO, PUERTO RICO

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
"SINGLE AUDIT REPORT"

YEAR ENDED JUNE 30, 2003
(WITH INDEPENDENT AUDITORS REPORT THEREON)

GONZÁLEZ TORRES & CO., PSC
Certified Public Accountants & Consultants

TABLE OF CONTENTS

	PAGES
Financial Section:	
Independent Auditor' Report	1-2
Management Discussion and Analysis	3-9
Statement of Net Assets-government-wide	10
Statement of Activities-government-wide	11
Balance Sheet-governmental funds	12
Statement of Revenues, Expenditures, and Change in Fund Balances-Governmental Funds	13
Reconciliation of Gevernmental Statement of Revenues to the Statement of Activities-government-wide	14
Statement of Cash Flow-Business Type Activity	15
Notes to the Financial Statements	16-34
Budgetary Comparison Schedule-General Fund	35
Notes to the Budgetary Comparison Schedule-General Fund	36
Federal Funds Section:	
Schedule of Federal Financial Assistance	37
Notes to Schedule of Federal Financial Assistance	38
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39-40
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance with OMB Circular A-133	41-42
Schedule of Current Findings and Questioned Costs	43-49
Summary Schedule of Prior Audit Findings	50-51

GONZÁLEZ TORRES & CO.
Certified Public Accountants and Consultants
Member of:
Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

INDEPENDENT AUDITORS REPORT

Honorable Mayor and Municipal Council
Municipality of Hatillo, Puerto Rico
Hatillo, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, business - type activities, each major fund, and the aggregate remaining fund information of the Municipality of Hatillo, Puerto Rico, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's financial statements as listed in the table of contents. Our responsibility is to express an opinion of these financial statements based on our audit.

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

In our opinion, the basic financial statement referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Municipality's of Hatillo as of June 30, 2003, and the respective changes in financial position and cash flow, where applicable of those activities and funds and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis for States and Local Governments.

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The Management's Discussion and Analysis on pages 2 through 9 is 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2003, on our consideration of the Municipality of Hatillo's internal control over financial reporting and on 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.

Our audit was performed for the purpose of forming and opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the 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 basic financial statements taken as a whole.

GONZÁLEZ TORRES & CO., PSC
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Expires by December 1, 2005

December 19, 2003
San Juan, Puerto Rico

The stamp number 1928257
was affixed to the original of this report.

CPA GONZALEZ TORRES & CO., C.S.P.
PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

FINANCIAL HIGHLIGHTS

- The Municipality net assets decreased by $2,055,155.
- In the fund financial statements, the governmental activities revenue increased $2,232,743 (or 10.84%) while governmental activities expenditures increased $5.9 million (or 26.14%), compared with fiscal year ended June 30, 2002.
- On a budgetary basis, actual expenditures exceeded actual revenues by $1,474,905.
- The business-type activity closed with a net assets of $334,349.
- The Municipality issued bonds amounting to $1.035 million to finance heavy equipment vehicles acquisitions.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government), and enhance the Municipality's accountability.

Government-wide Financial Statements

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

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

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

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure - roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.), have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in

evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. The Municipality has applied the retroactively presentation of the historical costs of infrastructure assets during the fiscal year ended June 30, 2003. The infrastructure assets are accounted for as of June 30, 2003. However, certain infrastructure assets were not included as of June 30, 2003 because the title and cost have not been determined. Such assets will be included when the information is available. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's unrestricted net assets (excess of assets over liabilities) totaled $4.03 millions at the end of 2003, and the net assets as of June 30, 2003 amounted to $38.7 millions.

Condensed Statement of Net Assets
June 30, 2003

	Governmental	Business-type Activities
Current assets	$ 8,113,310	160,408
Capital assets	41,948,241	3,079,847
Other assets	4,391,835	600,576
Total assets	54,453,386	3,840,831
Current liabilities	4,698,305	157,482
Noncurrent liabilities	11,045,549	3,349,000
Total liabilities	15,743,854	3,506,482
Invested in capital assets, net of related debt	33,643,220	240,423
Restricted	1,015,318	
Unrestricted	4,050,994	93,926
Total net assets	$38,709,532	$ 334,349

Changes in Net Assets

The Municipality's net assets deficit increased by $2,055,155. Approximately 47.32 percent of the Municipality's total revenue came from taxes, while 50.05 percent resulted from grants and contributions, including federal aid. Charges for Services provided 2.63 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works, and urban development. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Condensed Statement of Activities
June 30, 2003

	Governmental	Business-type Activities
Program revenues:		
Charges for services	$ 543,421	
Operating grants and contributions	1,582,701	
Capital grants and contributions	4,715,090	
General revenues:		
Property taxes	7,141,648	
Municipal licence tax	2,605,579	
Grants and contributions not restricted to specific programs	3,061,448	
Interest and investment earnings	309,837	95
Miscellaneous	271,497	
Rent		368,967
Transfer	(170,472)	170,472
Total revenues	20,060,749	539,534
Expenses:		
General	6,971,388	467,262
Public safety	432,090	
Public works	12,489,502	
Culture and recreation	773,478	
Health and welfare	1,057,104	
Interest on long-term debt	392,342	
Depreciation		38,480
Interest		229,473
Total expenses	22,115,904	735,215
Change in net assets	(2,055,155)	(195,681)
Net assets, beginning of year	40,764,687	530,030
Net assets, end of year	$38,709,532	$ 334,349

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $4.5 million, a decrease of $7.4 million in comparison with the prior year. There are reservations of fund balance amounting to $5.1 million. This is the fund balance that it is not available for new spending because it has already been committed; 1) to pay debt service ($1.0 million), 2) to pay for capital projects ($3.4 million) and, 3) for special revenues fund ($668,118).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a balance of 2.1million.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to $55.1 millions, net of accumulated depreciation of $13.1 millions, leaving a net book value of $41.9 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 4% in terms of net book value. Depreciation charges for the year totaled $530,831. This amount included $492,351 for general fund and $38,480 for enterprise fund.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each Municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds" for a general description of such limitations. The Municipality outstanding general obligation debt as of June 30, 2003, is $11.7 millions.

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity", Act. No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such Municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Those factors were considered when preparing the Municipality's budget for the 2002-2003 fiscal year.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer. Municipality of Hatillo, Apartado 8, Hatillo, Puerto Rico 00659. Telephone (787) 898-3840.

MUNICIPALITY OF HATILLO
STATEMENT OF NET ASSETS
JUNE 30, 2003

ASSETS	Governmental Activities	Primary Government Business-type Activities "Centro Vacacional Luis Muñoz Marín"	Total
Cash and cash equivalents (Note 2)	$6,683,152	$157,268	$6,840,420
Cash with fiscal agent (Note 2)	4,391,835	600,576	4,992,411
Accounts receivable:			
Municipal license tax	308,470		308,470
Intergovernmental	900,034	3,140	903,174
Federal	131,626		131,626
Other	90,028		90,028
Capital assets, net of depreciation	41,948,241	3,079,847	45,028,088
TOTAL ASSETS	$54,453,386	$3,840,831	$58,294,217
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	$1,317,581	$66,482	$1,384,063
Deferred revenues :			
Municipal license tax	2,266,334		2,266,334
Federal grant revenues	318,590		318,590
Other	27,000		27,000
Matured bonds and interest payable	4,708,976		4,708,976
Noncurrent liabilities:			
Due within one year	768,800	91,000	859,800
Due in more than one year	6,336,573	3,349,000	9,685,573
TOTAL LIABILITIES	15,743,854	3,506,482	19,250,336
Invested in capital assets, net of related debt	33,643,220	240,423	33,883,643
Restricted for debt service	1,015,318		1,015,318
Unrestricted	4,050,994	93,926	4,144,920
NET ASSETS	$38,709,532	$ 334,349	$ 39,043,881

See notes to financial statements.

MUNICIPALITY OF HATILLO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities "Centro Vocacional Luis Muñoz Marín"
Functions/Programs						
General government	$6,971,388	$118,454	$980,454	$877,044	($4,995,436)	
Public safety	455,128	-	-	-	(455,128)	
Public works	12,489,502	-	-	3,838,046	(8,651,456)	
Culture and recreation	949,032	379,967	-	-	(569,065)	
Health and welfare	1,057,104	45,000	602,247	-	(409,857)	
Interest on long term debt	392,342	-	-	-	(392,342)	
Total governmental activities	$22,314,496	$ 543,421	$ 1,582,701	$ 4,715,090	($ 15,473,284)	
Business-type activities: Centro Vocacional Luis Muñoz Marín						
General	$467,262					$ 467,262
Depreciation	38,480					38,480
Interest	229,473					229,473
Total business-type activities	$ 735,215					$ 735,215
		General revenues:				
		Property taxes			$ 7,141,648	
		Municipal license tax			2,605,579	
		Grants and contributions not restricted to specific programs			3,061,448	
		Interest and investment earnings			309,837	95
		Miscellaneous			470,089	
		Rent and activities				368,967
		Transfers			(170,472)	170,472
		Total general revenues			13,418,129	539,534
		Change in net assets			(2,055,155)	(195,681)
		Net assets at beginning of year			40,764,687	530,030
		Net assets at end of year			$ 38,709,532	$ 334,349

See notes to financial statements.

MUNICIPALITY OF HATILLO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

ASSETS	General	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
Cash and cash equivalents	$ 3,893,708	-	$1,082,929	$ 1,706,515	$ 6,683,152
Cash with fiscal agent	-	$ 2,267,570		2,124,265	4,391,835
Accounts receivable:					
Municipal license tax	308,470	-			308,470
Intergovernmental	900,034	-		-	900,034
Federal	-	-	56,679	74,947	131,626
Other	90,028	-	-	-	90,028
Due from other funds	240,242	-	-	-	240,242
Total assets	$ 5,432,482	2,267,570	1,139,608	$ 3,905,727	$ 12,745,387
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	850,716	-	6,244	368,208	1,225,168
Due to other fund	25,916	-	215,066	2,400	243,382
Due to Government	105,997	-			105,997
Matured bonds and interest payable	-	1,252,252			1,252,252
Deferred revenues:					
Municipal license tax	2,266,334	-			2,266,334
Federal grant revenues	-	-	203,180	115,410	318,590
General Investment	-	-	27,000	-	27,000
Total liabilities	3,248,963	1,252,252	451,490	486,018	5,438,723
Fund balances:					
Reserved for:					
Debt service	-	1,015,318			1,015,318
Capital projects	-	-		3,419,709	3,419,709
General fund	2,183,519	-			2,183,519
Special revenue funds	-	-	688,118	-	688,118
Total fund balances	2,183,519	1,015,318	688,118	3,419,709	7,306,664
Total liabilities and fund balances	$ 5,432,482	$ 2,267,570	$ 1,139,608	$ 3,905,727	

Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources therefore, are not reported in the funds		41,948,241
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued compensated absences	1,064,217	
Landfill closure	500,000	
Debt for Health Reform	1,316,860	
Bonds payable	7,664,296	
Total long-term liabilities		(10,545,373)
Total net assets of governmental activities		$38,709,532

See notes to financial statements.

MUNICIPALITY OF HATILLO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	General	Debt Service Fund	Special Revenue Funds	Capital Projects Funds	Total Governmental Funds
REVENUES:					
Property Taxes	$5,749,842	$1,391,806	$ -	$ -	$7,141,648
Municipal license tax	2,605,579				2,605,579
Licenses, permits and other local taxes	132,217				132,217
Charges for services	174,452				174,452
Interest	292,315	17,522			309,837
Fines and forfeitures	875				875
Intergovernmental					
Federal	-		980,454	877,044	1,857,498
Local	3,061,448		602,247	3,838,046	7,501,741
Other	507,374	-	-	-	507,374
Total revenues	12,524,102	1,409,328	1,582,701	4,715,090	20,231,221
EXPENDITURES:					
Current:					
General	5,450,316		967,738	121,130	6,539,184
Public safety	425,245				425,245
Public works	6,936,814			5,432,953	12,369,767
Culture and recreation	773,478				773,478
Health and Welfare	413,217		573,641		986,858
Debt service:					
Principal		386,000			386,000
Interests		392,342			392,342
Total expenditures	13,999,070	778,342	1,541,379	5,554,083	21,872,874
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,474,968)	630,986	41,322	(838,993)	(1,641,653)
OTHER FINANCING SOURCES (USES):					
Operating transfer in	165,981			296,987	462,968
Operating transfer to other fund	(1,300,000)	(447,960)	(296,987)	(868,745)	(2,913,692)
Total other financing sources (uses)	(1,134,019)	(447,960)	(296,987)	(571,758)	(2,450,724)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(2,608,987)	183,026	(255,665)	(1,410,751)	(4,092,377)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR Restricted for all funds, except for general fund	4,792,506	832,292	943,783	4,830,460	11,399,041
FUND BALANCES (DEFICIT), AT END OF YEAR Restricted, except for the general fund unrestricted	$2,183,519	$1,015,318	$688,118	$3,419,709	$7,306,664

See notes to financial statements.

MUNICIPALITY OF HATILLO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	($4,092,377)
Operating transfer out	2,913,692
Current year depreciation	(492,351)
Principal payments	477,000
Operating transfer in from other fund	(861,119)
Change in net assets of governmental activities	($2,055,155)

See notes to financial statements.

MUNICIPALITY OF HATILLO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
ENTERPRISES FUND
FOR THE YEAR ENDED JUNE 30, 2003

Cash Flow from Operating Activities:	
Net loss for the period	($ 195,681)
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation	38,480
Increase in accounts payable	46,860
Increase in interest others receivables	(3,140)
Cash used by operating activities	(113,481)
Cash Flows by Financing Activities:	
Payments of debt	(107,724)
Cash used by financing activities	(107,724)
Cash Flows by Investing Activities:	
Payments for construction in process	(1,059,058)
Cash used by investing activities	(1,059,058)
Net Decreased in Cash and Cash Equivalents	(1,280,263)
Cash and Cash Equivalents at Beginning of Period	$ 2,038,107
Cash and Cash Equivalents at End of Period, Restricted	$ 757,844
Supplementary information:	
Interests paid during the year	$ 229,473

See notes to financial statements.

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Hatillo ("Municipality") was founded in the June 30, 1823. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for four-year terms.

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

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

A. Government-wide and fund financial statements

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

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

2. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business typed activities, if any, which rely to a significant extent on fees and charges for support. Inter fund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

   The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and

2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

   Capital Projects Funds - are used to account for financial resources used for the acquisition or construction of major capital facilities.

   Proprietary funds - are accounted for using he economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of the net income, financial position and cash flow. All assets and liabilities are included on the Statements of Net Assets. The Municipality has presented the following major proprietary fund.

   Enterprise fund- "Centro Vacacional Luis Muñoz Marín" is used to account the resources and uses of the Vacational Center activities.

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

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

6. Notes to the budgetary comparison schedule - general fund.

B. Financial reporting presentation

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

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

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

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

Capital Projects Funds - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

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

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

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

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

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

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

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

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

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

D. Assets, liabilities and net assets

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

   Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

2. ***Receivables and payables*** - Activity between funds that are representatives of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter fund loans) or "advances to/from other funds" the non-current portion of inter fund loans). All other outstanding balances between funds are reported as "due to/from other funds".

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

   Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represent the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted fro the debt service.

3. ***Capital assets*** - Capital assets, which include property, plant, equipment, and infrastructures assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Description	Years
Buildings	50
Infrastructure (roads)	20
Machinery	10
Computer's hardware	5
Vehicles	5
Furniture and fixtures	10
Stadium and courts	20 to 45
Passive and active areas	10 to 15

4. ***Long term obligations*** - The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and third parties, and landfill closure and post closure care costs. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

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

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

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

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

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

   a. *Capital Projects* - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.

   b. *Advances and Other Specified Purposes* - Represents net assets available for specific use under federal grant programs, reservation of monies set aside for long-term receivables which are not considered current financing resources or other long-term assets.

   c. *Debt Service Fund* - Represents net assets available to finance future debt service payments.

   d. *Other* - Represents net assets legally segregated for other specific future use.

8. ***Inter fund transactions*** - The Municipality has the following types of transactions among funds:

   a. *Operating Transfers* - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

   b. *Advances* - Represent the amounts advanced among the funds of the Municipality, which are not considered to be currently available financial resources.

9. ***Risk financing*** - The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance is allocated to the Municipality and deducted from the gross property tax collections by the CRIM. The current insurance policies have not been canceled or terminated. The CRIM also deducted for workers compensation insurance covering all municipal employees.

10. Pursuant to and determined by an internal cost allocation plan certain costs initially borne by the General Fund are then billed as direct charges to other funds of the Municipality Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the governmental funds

Statement of Revenue, Expenditures and Changes in Fund Balances General Fund as charges for services. The corresponding expenses appear as function/program costs in the Statement of Activities.

(2) DEPOSITS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico ("GDB").

The Municipality's bank balances in commercial banks of approximately $4.05 million in the general fund were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately $2.79 million, respectively, that were fully collateralized.

The deposits at GDB of approximately $2.1 million that are restricted principally for capital projects, and the $2.2 million in the debt service fund are unsecured and not collateralized, as no collateral is required to be carried by governmental banks.

(3) RECEIVABLES

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

- Financial business - 1.50% of gross revenues
- Other organizations - from .3% to .4% for annual revenues

This tax is due in two equal installations on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for not collectibles.

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

b. ***Intergovernmental Receivables*** - Intergovernmental receivable in the general fund principally consist of the amounts due from CRIM represents the add valorem tax restricted for debt service collected by the CRIM during 2003, which was transferred to the Governmental Development Bank for Puerto Rico in July 2003. The amount to be received by the Municipality is $900,034.

Intergovernmental receivable in other governmental funds represents expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

Program Description	Amount
Federal Transit Administration	$ 74,947
Huracan Georges	23,987
INSEC	32,692
Total	$ 131,626

c. ***Other*** - Other accounts receivable as of June 30, 2003 are as follows:

	Governmental Type Funds		
	General fund	Other Governmental funds	Total
Rent	$ 74,050	$ -	$ 74,050
Interest	15,978	-	15,978
Total	$ 90,028	$ -	$ 90,028

(4) INTER FUND TRANSACTIONS

Inter fund receivables and payables at June 30, 2003 are summarized as follows:

a. Due from/to other fund:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	$ 234,382

(5) CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of $5,000 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Depreciation for the general fund is $492,352 and for the enterprise fund is $38,480. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Capital asset, not being depreciated:				
Land	$ 22,705,544	-	-	$22,705,544
Construction in progress	7,583,485	2,020,315	(8,526,272)	1,077,528
Total capital assets not being depreciated	30,289,029	2,020,315	(8,526,272)	23,783,072
Capital assets, being depreciated:				
Buildings	9,704,416	4,570,609	-	14,275,025
Equipment	1,245,658	200,370	(39,599)	1,406,429
Infrastructure	8,643,780	3,780,069	-	12,423,849
Vehicles	3,214,191	-	-	3,214,191
	22,808,045	8,551,048	(39,599)	31,319,494
Less accumulated depreciation	(12,661,875)	(492,451)	-	(13,154,326)
Total capital assets being depreciated, net	10,146,170	8,058,597	(39,599)	18,165,168
Governmental activities capital assets, net	$ 40,435,199	$10,078,912	($8,565,871)	$ 41,948,240

Business-type Activities Centro Vacacional Luis Muñoz Marín	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Capital asset, not being depreciate:				
Land	$ 1,215,200			$ 1,215,200
Construction in progress	-	1,059,058	-	1,059,058
Total capital assets not being depreciated	1,215,200	1,059,058	-	2,274,258
Capital assets, being depreciated:				
Buildings	932,095			932,095
Less accumulated depreciation	(88,025)	(38,480)		(126,505)
Total capital assets being depreciated, net	844,070	(38,480)	-	805,590
	$ 2,059,270	$ 1,020,578	-	$ 3,079,848

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

Governmental activities:	
General Government	$ 135,414
Public safety	29,883
Public works	119,735
Culture and recreation	137,073
Health and welfare	70,246
Total depreciation expense - governmental activities	$ 492,351

(6) PROPERTY TAXES

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

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

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to $200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amounts that the Municipalities will collect from the additional property taxes from the increases in the subsidy from the Central Government to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999.

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

The annual tax rate for fiscal year 2002-03 is 6.04% for real property and 4.04% for personal property of which 0.83% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows; (a) 4.72% and 2.72%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. Also an additional 0.49% in both cases, which is restricted for debt service and retained by the CRIM for such purposes.

7. DEFERRED REVENUES

1. **Municipal License Tax** - The deferred revenues of approximately $2.2 million in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

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

Program Description	Amount
Child Care	$ 145,459
SBGP	102,850
Section 8 Housing Vouchers	38,774
UDAG Program	12,560
Food Program	10,490
Section 8 Housing Existing	3,450
Auxiliar del Hogar	2,724
Titulo III	2,281
Others	2
Total	$ 318,590

8. LONG TERM DEBT

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

	Beginning Balance	Borrowing or Additions	Payments or Deductions	Ending Balance	Due within One Year
Bonds payable	$ 7,656,020	$1,035,000	386,000	8,305,020	533,000
Enterprises bonds payable	3,547,724	-	91,000	3,456,724	91,000
Compensated absences	544,102	520,115	-	1,064,217	235,800
Health Reform	1,316,860	-	-	1,316,860	-
Landfill obligation	500,000	-	-	500,000	-
Total	$13,564,706	$1,555,115	$ 477,000	$14,642,821	$ 859,800

1. Legal debt margin - The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

2. Bonds payable - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately $11.7 million. Bonds payable outstanding at June 30, 2003 are as follows:

NOTES OBLIGATION:	Outstanding Amount
$650,000 Series of 1998 note payable in annual installments of $110,000 to $150,000 through July 1, 2003; interest ranging of 4.865% to 6.31%, payable semi-annually. (Proceeds were used for heavy equipment vehicle acquisition).	$ 150,000
TOTAL NOTES OBLIGATIONS	150,000
GENERAL BONDS OBLIGATIONS	
$550,000 bond payable series of 1995, payable in annual installments of $14,000 to $38,020 through January 1, 2020; interest at 4.50%. (Proceed used for heavy equipment vehicle acquisition).	470,020
$2,810,000 bond payable series of 1998, payable in annual installments of $40,000 to $250,000 through July 1, 2023; interest at 4.865% to 6.56%. (Proceed used for construction of baseball park and elderly home center).	2,635,000
$624,000 bond payable series of 1998, payable in annual installments of $17,000 to $44,000 through January 1, 2022; interest at 4.50%. (Proceed used for heavy equipment vehicle acquisition).	570,000
$700,000 bond payable series of 2000, payable in annual installments of $50,000 to $100,000 through July 1, 2009; interest at 2.70% to 7.81%. (Proceed used for roads paving).	545,000
$2,265,000 bond payable series of 2002, payable in annual installments of $30,000 to $200,000 through July 1, 2025; interest at 2.70% to 6.13%. (Proceed used for construction of electronic library, baseball park and Punta Maracayo Resort, same as Vacational Center).	2,200,000
$3,875,000 bond payable series of 1997, payable in annual installments of $65,000 to $345,000 through July 1, 2020, interest at 4.865% to 6.71%. The 20% belong to Municipality and 80% belong to Enterprise Fund (Proceed used for acquisition of building).	700,000
$1,035,000 bond payable series of 2002, payable in annual installments of $180,000 to $235,000 through July 1, 2007; interest at 5% to 6.50%. (Proceed used for heavy equipment vehicles)	1,035,000
TOTAL OF BONDS OBLIGATIONS	8,155,020
TOTAL GENERAL OBLIGATIONS BOND AND NOTES	$8,305,020

NOTES OBLIGATION:	Outstanding Amount

3. These bonds are payable from the add valorem property tax which is restricted for debt service and retained by the Governmental Development Bank for such purposes. The future annual requirement for the amortization of general obligation bonds outstanding as of June 30, 2003, are as follow:

Year ending June 30,	Amount
2004	$ 533,000
2005	415,000
2006	439,000
2007	473,000
2008	511,000
2009-2013	1,370,000
2014-2018	1,683,000
2019-2023	2,081,020
2024-2028	800,000
Total	$ 8,305,020

ENTERPRISES FUND

$3,875,000 bond payable series of 1997, payable in annual installments of $65,000 to $345,000 through July 1, 2020; interest at 4.865% to 6.71%. The 20% belong to by Municipal funds and 80% belong to Enterprises Fund (Proceeds used for Punta Maracayo Resort development and land acquisition).	$2,800,000
$715,000 bond payable series of 1996, payable in annual installments of $10,000 to $65,000 through July 1, 2020; interest at 4.865% to 6.75%. (Proceeds used for Punta Maracayo resort).	640,000
TOTAL OF BONDS OBLIGATIONS	$3,440,000

These bonds are payable from the add valorem property tax which is restricted for debt service and retained by the Governmental Development Bank for such purposes. The future annual requirement for the amortization of general obligation bonds outstanding as of June 30 2003, are as follow:

Year ending June 30,	Amount
2004	$ 91,000
2005	100,000
2006	108,000
2007	108,000
2008	125,000
2009-2013	789,000
2014-2018	1,163,000
2024-2028	956,000
Total	$ 3,440,000

4. Compensated absences - The government-wide statement of net assets includes approximately $1.0 million of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs futures operations.

5. Landfill obligation - State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs", the Municipality has estimated the obligation in the amount of $500,000.

6. Health Reform - This debt belong to the fiscal year 1996-1997 when as a Municipal contributions to State Health Insurance. The total amount of debt is $1,316,860 and the payment was made by State Electronic Lottery fund as established by Law 29 of July 1, 1997.

9. PENSION PLAN

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

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

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

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately $273,410.

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

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, P R 00940.

10. COMMITMENTS

The Municipality had commitments at June 30, 2003 of approximately $2.1 million for the construction, improvements, or renovation of several municipal facilities.

11. CONTINGENCIES

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality. In addition, the Municipality is a defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. The final outcome of these claims cannot be determined by legal counsel with the information currently available. As a result, the accompanying accountant compilation reports do not include adjustments, if any, that could result from the resolution of these legal proceedings.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors.

12. SUBSEQUENT EVENTS

The Municipality was involved in the construction activities and infrastructures, in the amount of $2,136,586. Also a new heavy equipment vehicles will be received from the proceed of $1,035,000 bond.

MUNICIPALITY OF HATILLO, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2003

	Budgetary amounts		Actual amounts (Budgetary Basis) (See Note 1)	Variance with final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	$ 4,399,886	$ 4,849,808	$ 5,391,451	$ 541,643
Municipal license tax	2,640,000	2,812,116	2,616,607	(195,509)
Licenses, permits and other local taxes	101,000	124,983	132,217	7,234
Charges for services	172,100	165,684	174,452	8,768
Fines and forfeitures	5,000	845	875	30
Interest	520,000	292,315	327,601	35,286
Inter governmental - local	3,057,203	3,068,606	3,061,448	(7,158)
Transfer In	-	2,400,000	-	(2,400,000)
Other	70,000	200,036	571,248	371,212
Total revenues	$ 10,965,189	$13,914,393	$12,275,899	(1,638,494)
EXPENDITURES:				
Current:				
General Government	4,659,681	5,041,543	5,291,943	(250,400)
Public Safety	492,872	432,675	349,436	83,239
Public works	4,507,469	7,151,434	6,992,471	158,963
Cultures and recreation	686,220	857,354	655,580	201,774
Health and welfare	618,947	431,387	371,386	60,001
Total expenditures	10,965,189	13,914,393	13,660,816	253,577
EXCESS OF REVENUES OVER EXPENDITURES	$ 0	$ 0	$ 1,384,917	($1,384,917)

Explanation of Differences:

Sources /inflows of resources

Actual amounts budgetary basis "available for appropriation" from the budgetary comparison schedule	
Difference - Budget to GAAP	12,275,899
Effects of property tax, municipal tax and other receivable	248,203
Uses/outflows of resources:	$12,524,102
Actual amounts "total charges to appropriations" from the budgetary comparison schedule	
Difference - Budget to GAAP	$13,660,816
Effects of account payable	(154,097)
Effects of depreciation	492,351
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	$ 13,999,070

See notes to budgetary comparison schedule.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Control

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

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

During the year the Municipality authorized an adjustment to the original budget for the amount of $2,400,000, representing assignations of funds from the general funds for the year ended at June 30, 2002.

MUNICIPALITY OF HATILLO
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 2003

FEDERAL GRANTOR PASS-THRU	FEDERAL GRANT NUMBER	EXPENDITURES
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Direct Program:		
Section 8 Housing Choice Vouchers	14.871	$316,394
Community Development Block Grant (SBGP)	14.219	395,489
US DEPARTMENT OF HEALTH AND SERVICES:		
Passed-through Puerto Rico Elderly Commissions: Special Program for Aging, Title III, Part C	93.045	86,132
Child Care Development Block Program	93.575	719,891
US DEPARTMENT OF JUSTICE:		
Universal Hiring Program (COPS)	16.711	128,292
FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION:		
Fema Georges	83.536	23,987
US DEPARTMENT OF TRANSPORTATION:		
Federal Transit Administration Federal Transit - Formula Grant	20.507	297,166
TOTAL FEDERAL ASSISTANCE EXPENDITURES		$1,967,351

The accompanying notes to Schedule of Federal Financial Assistance are an integral part of this Schedule.

MUNICIPALITY OF HATILLO
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 2003

(1) GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal assistance programs of the Municipality of Hatillo, Puerto Rico. The Municipality of Hatillo reporting entity is defined in note 1 to the general purpose financial statements. Federal financial assistance received were pass through funds from general agency.

(2) BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting which is described in note 1 to the general purpose financial statements.

(3) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Expenditures included in the accompanying Schedule agree with the amounts included in the general purpose financial statements as follows:

Funds	Federal Assistance	Municipal or State Assistance	Total included in the financial statements
Special Revenue:			
Administration	$ 541,470	$ 426,269	$ 967,739
Welfare	420,337	153,304	573,641
Capital Project:			
Administration	57,009	64,120	121,129
Capital Outlays	948,535	4,484,418	5,432,953
	$1,967,351	$5,128,111	$7,095,462

GONZÁLEZ TORRES & CO.
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American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

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 Mayor and Municipal Assembly
Municipality of Hatillo
Hatillo, Puerto Rico

We have audited the general purpose financial statements of Municipality of Hatillo as of June 30, 2003 and for the year then ended, and have issued our report thereon dated December 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Municipality of Hatillo general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing 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. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the Municipality of Hatillo in a separate letter dated December 19, 2003.

In planning and performing our audit, we considered Municipality of Hatillo internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and do not provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose 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 a material weakness. However, we noted other matters involving the internal control over financial reporting, which are included in the accompanying schedule of findings and questioned costs.

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

This report is intended solely for the information and use of the Audit Committee Management, 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.

CPA JOSÉ A. GONZÁLEZ TORRES
LIC. 96
Expires December 1, 2004

San Juan, Puerto Rico
December 19, 2003

The stamp number 1944812
was affixed to original of this report.

CPA GONZALEZ TORRES & CO., C.S.P.
PUERTO RICO
Lic. Núm. 96
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133

To the Mayor and Municipal Assembly
Municipality of Hatillo
Hatillo, Puerto Rico

We have audited the compliance of Municipality of Hatillo with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The Municipality of Hatillo's major federal programs are identified in the summary of auditor's results 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 program is the responsibility of Municipality of Hatillo's management. Our responsibility is to express an opinion on Municipality of Hatillo's compliance based on our audit.

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

In our opinion, the Municipality of Hatillo 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.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133 (CONTINUED)

The management of Municipality of Hatillo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Hatillo'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.

Our consideration of the internal control over compliance would not necessarily disclosed 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Audit Committee Management, 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.

CPA JOSÉ A GONZÁLEZ TORRES
LIC. 96
Expires December 1, 2004

San Juan, Puerto Rico
December 19, 2003

The stamp number 1944813
was affixed to the original of this report.

CPA GONZALEZ TORRES & CO., C.S.P.
PUERTO RICO
Lic. Núm. 96
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MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

1. Summary of audit results:

Part I Financial Statements:

1. Type of audit report:

☒ Unqualified opinion ☐ Qualified opinion

☐ Adverse opinion ☐ Disclaimer of opinion

2. Reportable conditions reported

☒ Yes ☐ No

3. Reportable condition reported as a major weakness:

☐ Yes ☒ No

4. Material noncompliance disclosed:

☐ Yes ☒ No

Part II Federal Awards

1. Type of report: on compliance for major programs:

☒ Unqualified opinion ☐ Qualified opinion

☐ Adverse opinion ☐ Disclaimer of opinion

2. Reportable condition reported as a major weakness:

☐ Yes ☒ No

3. Material noncompliance disclosed:

☐ Yes ☒ No

MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

1. Summary of audit results (continued):

Part II Federal Awards (continued):

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

   ☒ Yes ☐ No

5. Major Programs:

CFDA Number (s)	Federal Program Grantor and Program Name
14.871	***US Department of Housing and Urban Development:*** Section 8 Housing Choice Vouchers
93.575	***US Department of Health and Human Services:*** Child Care Development Block Grant Program
14.219	***US Department of Housing and Urban Development:*** Community Development Block Grant (SBGP)

6. Dollar threshold used to distinguish Type A and Type B programs:

   ☒ $300,000 or 3% of total federal awards expended

7. Low-risk auditee

   ☐ Yes ☒ No

8. Waive risk criteria under 520 (i) of Circular A-133

   ☐ Yes ☒ No

MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

Finding 2003-1

Federal Program:

Community Development Block Grant - State's Program (CFDA 14.219)

Requirement: Internal control

Noncompliance: Procurement

Condition:

We noted in our tests of the Municipality internal control over disbursement process, that the supporting documents corresponding to SBGP, the authorization signatures of Official Payer, Supervisor, Finance Director and Unit of Department Supervision were missing.

Criteria:

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart C, 44 CFR, 13.20 (b) (3) (OMB Common Rule) Requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure that they will be used solely for authorized purposes.

Effect:

Liabilities could be paid twice by the Municipality, which may be an unallowable cost.

Cause:

There are no adequate internal control procedures implemented to assure this compliance.

Recommendation:

The Municipality should stamp and obtain properly authorization to all disbursement supporting documents in order to assure compliance with the internal control structure.

Questioned Cost:

None.

Finding 2003-2

Community Development Block Grant - State's Program (CFDA 14.219)

Requirement: Reporting

Condition:

During our test we noted that one (1) purchase order was missing.

Criteria:

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart C, 44 CFR, 13.20 (b) (3) (OMB Common Rule),requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure that they will be used solely for authorized purposes.

Cause:

There are no adequate internal control procedures implemented to assure this compliance.

Effect:

Purchase order could not be properly authorized.

Recommendations:

The Municipality should keep all their records properly.

Questioned cost:

None.

Finding 2003-3

Federal Programs:

Community Development Block Grant - State's Program (CFDA 14.219)

Federal Transit - Formula Grant (CFDA 20.507)

Condition:

During our audit we noted that the Federal Financial Assistance is sometimes requested and not used to cover immediate expenditures incurred. We found that the programs held excess of cash on bank accounts.

Criteria:

OMB Circular A-133, Cash Management compliance requirement, stated that recipients must follow the procedures to minimize the time elapsing between the transfer of funds from US Treasury and disbursement.

Cause:

The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.

Effect:

The Municipality held excess of cash and it could be understood that Federal Program Department is requesting funds in excess of the immediate expenditures incurred.

Recommendations:

We recommend to the Municipality's management, to improve their forecasts procedures, in order to comply with this requirement.

Questioned Cost:

None

Finding 2003-4

Child Care Development Block Grant-(CFDA 93.575)

Condition:

During our payroll we did not find an evidence of I-9 form on employees files.

Criteria:

Department of Justice Regulations of 1986, Immigration Section.

Cause:

The Municipality could hired an employee non authorized to work in the United States.

Effect:

The Municipality could be fine.

Recommendations:

We recommend that the Municipality fill these forms immediately.

Questioned cost:

None.

Finding 2003-5

Federal Programs:

Federal Transit Administration (CFDA 20.500)
COPS (CFDA 16.711)

Condition:

During our audit no trial balance was received, for both programs. However, alternate procedures were used to obtain the accounting records for these programs.

Criteria:

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart C, 44 CFR, 13.20 (b) (3) (OMB Common Rule) Requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure that they will be used solely for authorized purposes.

Effect:

The Municipality can not assure an effective control over accounting of both programs.

Cause:

There are no adequate internal control procedures implemented to assure this compliance.

Recommendation:

The Municipality should prepare the trial balance in order to comply with accounting procedures and federal regulations.

Questioned cost:

None.

MUNICIPALITY OF HATILLO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

II. Audit Finding not corrected or partially corrected:

Finding number three (1): (June 30, 2002)

Reportable condition over disbursement process.

CFDA 93.575, 16.711, 83.536 and 14.228

No questioned costs.

Comments: The Municipality must stamp supporting documents corresponding to disbursement as paid.

Finding number four (4): (June 30, 2002)

Reportable condition over employee records.

No federal funds involved.

No questioned costs.

Comments: The Municipality should adhere to policies and procedures established, in accordance with the regulations and review each employee file to watch compliance in terms of the documentation missing on it.

Finding number two (2): (June 30, 2002)

Reportable condition on reporting requirements of the HUD Section 8 Programs.

CFDA 14.871, 14.228 and U.S. Department of Housing and Urban Development.

No questioned costs.

Comments: The following reports should be completed by the Municipality:

1. HUD-52681 - "Voucher for Payment of Annual Contribution and Operating Statement"
2. HUD-52595 - "Balance Sheet for Section 8 and Public Housing"
3. SBGP Quaterly Report.

MUNICIPALITY OF HATILLO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Finding number six (6): (June 30, 2002)

Reportable condition over accounting records.

No federal funds involved.

No questioned costs.

Comments: The Municipality prepare a trial balance in order to comply with accounting procedures and federal regulations.

Finding number three (3): (June 30, 2002)

Reportable condition over cash management.

Section 8 Rental Voucher Program (CFDA 14.871)

U.S. Department of Housing and Urban Development

Child Care Development Block Grant - (CFDA 93.575)

Community Development Block Grant - State's Program (CFDA 14.219)

No questioned costs.

Comments: The Department of Housing and Urban Development rental assistance program were merged. The need of separate bank accounts for the funds is no longer necessary.

III. Corrective Action taken is significally different from corrective action previously reported:

None.

IV. Audit Findings no longer valid:

None.