

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

MUNICIPIO DE ISABELA
AUDITORIA 2001-02
30 DE JUNIO DE 2002

OFICIO DEL COMISARIO
DE ADMINISTRACION
08-9509 - RI
03 APR - 9 AM 9:02

RECIBIDO
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO**

**INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS**

JUNE 30, 2002

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2002
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND THE OMB CIRCULAR A-133)

TABLE OF CONTENTS

	Pages
PART I – Financial:	
Independent Auditors' Report on General-Purpose Combined Financial Statements	2- 3
General-Purpose Combined Financial Statements:	
Combined Balance Sheet – All Fund Types and Accounts Groups and Discretely Presented Component Unit	4- 6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Discretely Presented Component Unit	7- 8
Combined Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance – Budget And Actual – General and Debt Service Funds	9-10
Notes to the General-Purposes Financial Statements	11-22
PART II – Schedule of Expenditures on Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:	
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25-26
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	27-28
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	29-30
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	32-46
Schedule of Prior Audits' Findings	47-48

PART I
FINANCIAL



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P R 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Isabela, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2002, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. Other auditor whose report, dated March 15, 2002, expressed a disclaimer opinion on those financial statements of the **Municipality** as of June 30, 2001.

Except as discussed in the following paragraphs, 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The **Municipality**, has not maintained a complete and accurate inventory of property, plant and equipment purchased in prior years to June 30, 2002. We were, therefore, unable to apply generally accepted auditing procedures to an examination of the costs of assets included in the General Fixed Assets Account Group.

During our examination of **Municipality's** inter-fund cash transactions and corresponding due from and due to account balances for the fiscal year 2001-2002, we were unable to determine any specific amounts of inter-fund debt because of the inadequacy of the accounting records.

As explained in Note 12, the **Municipality** is in process to perform a study of the estimated landfill closing and postclosing costs to be recognized in the general-purpose combined financial statements, as required by the GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs". Accordingly, no provision for liability has been made in the financial statements.

In our opinion, except for the effect of such adjustment, if any, as might have determined to be necessary had we been able to audit the fixed assets of the general fixed assets account group, for the inadequacy of inter-fund cash transactions and corresponding due from and due to account balances, and for no provision for liability of landfill closing and postclosing costs, as explained in above paragraphs, the general-purpose combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2002, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Page 2

We also audited the adjustments described in Note 14 that were applied to restate the 2001 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2003 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 general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
March 19, 2003



MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
ASSETS AND OTHER DEBITS:							
Cash and Investments (Notes 1 E and 2)	\$ 2,102,100	\$ 2,721,870	\$ 781,022	\$ -	\$ -	\$ -	\$ 5,604,992
Cash with Fiscal Agent (Note 1 E)	1,044	583,899	-	2,190,428	-	-	2,775,371
Receivables:							
Property Taxes (Note 8)	259,014	-	-	22,231	-	-	281,245
Federal Grants (Note 10)	-	185,666	-	-	-	-	185,666
Others Funds (Note 3)	4,728	1,322,251	-	-	-	-	1,326,979
Others (Note 3)	625,508	-	-	-	-	-	625,508
Property, Plant and Equipment (Note 5)	-	-	-	-	10,385,008	-	10,385,008
Amount Available in Debt Service							
Fund (Note 7)	-	-	-	-	-	2,207,931	2,207,931
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6)	-	-	-	-	-	6,046,008	6,046,008
Advance Property Taxes (Note 8)	-	-	-	-	-	203,767	203,767
State Health Insurance Plant Debt	-	-	-	-	-	989,083	989,083
Vested Compensated Absences (Note 1 I)	-	-	-	-	-	1,466,702	1,466,702
TOTAL ASSETS AND OTHER DEBITS	\$ 2,992,394	\$ 4,813,686	\$ 781,022	\$ 2,212,659	\$10,385,008	\$10,913,491	\$32,098,260

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 385,035	\$ 189,154	\$ -	\$ -	\$ -	\$ -	\$ 574,189
Due to:							
Government Units (Note 4)	415,375	-	-	-	-	-	415,375
Other Funds (Note 3)	1,322,251	-	-	4,728	-	-	1,326,979
Deferred Revenues:							
Volume of Business Tax (Note 9)	1,312,498	-	-	-	-	-	1,312,498
Federal Grants (Note 10)	-	423,535	-	-	-	-	423,535
Local Grants (Note 10)	294,840	-	-	-	-	-	294,840
Long-Term Debts:							
General Obligations Bonds (Note 6)	-	-	-	-	-	2,418,939	2,418,939
Special Obligations Notes (Note 6)	-	-	-	-	-	5,835,000	5,835,000
Advances of Property Taxes (Note 8)	-	-	-	-	-	203,767	203,767
State Health Insurance Plan Debt	-	-	-	-	-	989,083	989,083
Vested Compensated Absences (Note 1 I)	-	-	-	-	-	1,466,702	1,466,702
TOTAL LIABILITIES	<u>3,729,999</u>	<u>612,689</u>	<u>-</u>	<u>4,728</u>	<u>-</u>	<u>10,913,491</u>	<u>15,260,907</u>

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
FUND EQUITY (DEFICIT):							
Investment in Property, Plant and Equipment (Note 5).....	\$ -	\$ -	\$ -	\$ -	\$10,385,008	\$ -	\$10,385,008
Fund Balance:							
Reserved for Encumbrances (Note 1 L)	334,448	-	-	-	-	-	334,448
Unreserved (Deficit):							
Designated for Debt Service (Note 1 L).....	-	-	-	2,207,931	-	-	2,207,931
Designated for Subsequent Years Expenditures.....	-	4,200,997	781,022	-	-	-	4,982,019
Undesignated (Deficit)	<u>(1,072,053)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,072,053)</u>
TOTAL FUND EQUITY (DEFICIT).....	<u>(737,605)</u>	<u>4,200,997</u>	<u>781,022</u>	<u>2,207,931</u>	<u>10,385,008</u>	<u>-</u>	<u>16,837,353</u>
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT).....	<u>\$ 2,992,394</u>	<u>\$ 4,813,686</u>	<u>\$ 781,022</u>	<u>\$ 2,212,659</u>	<u>\$10,385,008</u>	<u>\$10,913,491</u>	<u>\$32,098,260</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

FOR THE YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8).....	\$ 3,671,184	\$ -	\$ -	\$ 998,339	\$ 4,669,523
Volume of Business Taxes (Note 9).....	1,696,974	-	-	-	1,696,974
Federal Assistance (Note 10).....	-	2,063,031	-	-	2,063,031
Intergovernmental (Note 10).....	3,795,370	2,400,236	882,104	-	7,077,710
Licenses and Permits.....	442,442	-	-	-	442,442
Miscellaneous.....	783,349	-	-	-	783,349
TOTAL REVENUES	<u>10,389,319</u>	<u>4,463,267</u>	<u>882,104</u>	<u>998,339</u>	<u>16,733,029</u>
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	416,159	-	-	-	416,159
General Government.....	7,191,369	1,300,049	-	-	8,491,418
Public Safety	933,898	26,685	-	-	960,583
Public Works	1,058,421	-	-	-	1,058,421
Culture and Recreation	454,562	-	-	-	454,562
Sanitation	825,530	-	-	-	825,530
Human Services and Welfare	2,226,027	708,542	-	-	2,934,569
Urban Development	-	384,407	1,085,418	-	1,469,825
Capital Outlays.....	58,078	457,566	-	-	515,644
Advance of Property Taxes.....	2,838,653	-	-	-	2,838,653
Debt Service:					
Principal Retirement (Notes 6 and 7).....	-	-	-	598,000	598,000
Interest Payment	-	-	-	224,733	224,733
TOTAL EXPENDITURES	<u>16,002,697</u>	<u>2,877,249</u>	<u>1,085,418</u>	<u>822,733</u>	<u>20,788,097</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	<u>(5,613,378)</u>	<u>1,586,018</u>	<u>(203,314)</u>	<u>175,606</u>	<u>(4,055,068)</u>

MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

FOR THE YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Advances of Property Taxes (Note 8)	\$ 3,200,517	\$ -	\$ -	\$ -	\$ 3,200,517
Proceed of Note	4,440,000	-	-	-	4,440,000
Operating Transfer In	-	1,403,786	929,286	47,813	2,380,885
Operating Transfer Out	<u>(1,451,599)</u>	<u>(929,286)</u>	<u>-</u>	<u>-</u>	<u>(2,380,885)</u>
TOTAL OTHER FINANCING SOURCES (USES).....	<u>6,188,918</u>	<u>474,500</u>	<u>929,286</u>	<u>47,813</u>	<u>7,640,517</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	575,540	2,060,518	725,972	223,419	3,585,449
Fund Balances (Deficit), as Restated, at Beginning of Year	<u>(1,313,145)</u>	<u>2,140,479</u>	<u>55,050</u>	<u>1,984,512</u>	<u>2,866,896</u>
FUND BALANCES (DEFICIT) AT END YEAR	<u>(\$ 737,605)</u>	<u>\$ 4,200,997</u>	<u>\$ 781,022</u>	<u>\$ 2,207,931</u>	<u>\$ 6,452,345</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2002

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 4,002,065	\$ 4,033,048	\$ 30,983	\$ -	\$ 998,339	\$ 998,339
Volume of Business Taxes	1,559,207	1,696,974	137,767	-	-	-
Intergovernmental	3,899,482	3,795,370	(104,112)	-	-	-
Licenses and Permits	430,961	442,442	11,481	-	-	-
Miscellaneous.....	<u>754,001</u>	<u>783,349</u>	<u>29,348</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>10,645,716</u>	<u>10,751,183</u>	<u>105,467</u>	<u>-</u>	<u>998,339</u>	<u>998,339</u>
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	459,818	424,006	35,812	-	-	-
General Government:						
Finance	3,117,713	3,381,445	(263,732)	-	-	-
Personnel	285,343	266,521	18,822	-	-	-
Insurance	266,074	224,267	41,807	-	-	-
Public Safety	1,026,040	935,472	90,568	-	-	-
Public Works	1,315,531	1,141,722	173,809	-	-	-
Culture and Recreation	465,086	456,104	8,982	-	-	-
Sanitation	870,210	825,530	44,680	-	-	-
Human Services and Welfare	2,310,810	2,228,596	82,214	-	-	-
Urban Development	-	-	-	-	-	-
Capital Outlays.....	59,840	58,078	1,762	-	-	-
Amortization of Property Tax.....	-	-	-	-	-	-
Debt Service.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>822,733</u>	<u>(822,733)</u>
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>10,176,465</u>	<u>9,941,741</u>	<u>234,724</u>	<u>-</u>	<u>822,733</u>	<u>(822,733)</u>
EXCESS OF REVENUES Over (Under)						
Expenditures and Encumbrances.....	<u>469,251</u>	<u>809,442</u>	<u>340,191</u>	<u>-</u>	<u>175,606</u>	<u>175,606</u>

MUNICIPALITY OF ISABELA, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2002

	GENERAL			DEBT SERVICE		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
OTHER FINANCIAL SOURCES (USES):						
Operating Transfer In (Out).....	(\$ 469,251)	(\$ 466,599)	\$ 2,652	\$ -	\$ 47,813	\$ 47,813
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses.....	<u>\$ -</u>	342,843	<u>\$ 342,843</u>	<u>\$ -</u>	223,419	<u>\$ 223,419</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance.....		(65,314)			-	
Proceed of Note		4,440,000			-	
Accrual Liability for Certain Debts						
Not Recognized in Budget		(3,156,989)			-	
Net Changes in Unbudgeted Items		(985,000)			-	
Fund Balance (Deficit), as Restated at Beginning of Year.....		<u>(1,313,145)</u>			<u>1,984,512</u>	
FUND BALANCE (DEFICIT) AT END OF YEAR.....		<u>(\$ 737,605)</u>			<u>\$ 2,207,931</u>	

The accompanying notes to general-purpose financial statements are an integral part of this statement.

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Isabela, Puerto Rico (Municipality)** was founded in the year 1819, 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 12 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.

A. Financial Reporting Entity

The general-purpose financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a 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. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and account groups and the results of operations of the various fund types of the **Municipality**. This includes the organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has considered all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, fiscal dependency of the potential component units and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government.

A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

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** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore, no organizations, activities or functions are required to be included in the reporting entity.

B. Basis of Presentation

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set off self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis of accounting includes Interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the **Municipality** are financed. The acquisition, use, and balances of the **Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the **Municipality's** governmental fund types:

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.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

Special Revenue Fund – This is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Fund – This is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the General Fixed Assets Account Group.

ACCOUNT GROUPS

Account groups is not fund; it does not reflect available financial resources and related liabilities, but is accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the Municipality:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the Municipality.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

In December 1998, GASB issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" (GASBS No. 33), effective for financial statements for periods after June 15, 2000, which the Municipality adopted on July 1, 2000. This statement establishes accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups nonexchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed nonexchange revenue; (c) government mandated nonexchange transactions; and (d) voluntary nonexchange transactions.

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

C. Basis of Accounting (continuation)

The adoption of this statement did not alter significantly the basis of accounting used by the **Municipality** for the recognition of revenue and expenditures and related assets and liabilities, as described above, except for the recognition of tax receivables in the amount of \$259,014 and a corresponding deferred revenue for the same amount. This receivable is based on property taxes earned as Final Liquidation of Fiscal Year 2001-2002, estimated to be collectible but not currently available.

GASBS No. 33 also requires governments to recognize capital contributions to proprietary funds (not present in the financial statements) and to other governmental entities that use proprietary fund accounting as revenue, not contributed capital. However, governments should not restate contributed capital arising from periods prior to implementation of this statement until GASB issues one or more statements requiring restatement of those prior-period balances.

D. Budgetary Accounting

The **Municipality's** Annual Budget is prepared on the budgetary basis of accounting, represents departmental appropriations recommended by the Mayor, and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. 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 general-purpose 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. 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 general-purpose financial statements.

6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined 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 Combined Financial Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual, 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 8).
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 basis.

The special funds of the Special Revenue Fund have not been included in the budget and actual 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 and actual for such programs.

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

E. Cash 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 the law.

F. Receivable

Receivable are stated net 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 general-purpose financial statements.

H. General Fixed Assets

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the **Municipality**. Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

I. Compensated Absences

Municipal 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, or upon retirement, 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** accrues 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; and (3) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by **GASB Number 16**, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

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**.

MUNICIPALITY OF ISABELA, PUERTO RICO
NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

K. Interfund Transactions

The Municipality has the following types of transactions among funds:

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

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

L. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. 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 all budgetary basis statements.

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

Fund Deficit in the General Fund is primarily attributable to prior year adjustments due to unrecorded debts and cash accounts reconciliation. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

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 General Long-Term Debt Account Group 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.

N. Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

NOTE 2 CASH AND INVESTMENTS

The Municipality follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposit. The Municipality's cash 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 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.

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank of Puerto Rico	0111-0000006	\$ 450,000	2.30%	08-20-02
Popular Bank of Puerto Rico	0111-0000007	300,000	2.50%	08-20-02
Popular Bank of Puerto Rico	0111-0000009	200,000	2.30%	03-16-03
Popular Bank of Puerto Rico	0111-0000011	1,506,405	2.40%	08-14-02
Popular Bank of Puerto Rico	0111-0000012	<u>201,350</u>	2.30%	03-18-03
TOTAL		<u>\$2,657,755</u>		

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the Interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2002 consist of the follows:

	<u>INTERFUND</u>	
	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General:		
Interfund Loans	\$ -	\$1,322,251
Interest Receivable from Debt Service Fund	4,728	-
Special Revenue:		
Interfund Loans	1,322,251	-
Debt Services:		
Interest Payable to General Fund	-	4,728
TOTAL.....	<u>\$1,326,979</u>	<u>\$1,326,979</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2002, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	<u>AMOUNT</u>
Retirement System Administration.....	\$ 47,394
Water and Sewer Authority	60,288
Department of Labor and Human Resources	279,241
General Services Administration.....	22,614
AEELA.....	5,838
TOTAL.....	<u>\$415,375</u>

The **Municipality** also due the amount of \$989,083 to State Health Insurance Plan (ASES). This amount should be amortized through retention of the increase in the Electronic LOTO participation received by the **Municipality**, in accordance with Law Number 29 of July 1, 1997 (see NOTE 6).

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2001</u>	<u>ADDITIONS AND ADJUSTMENTS</u>	<u>DISPOSITIONS AND ADJUSTMENTS</u>	<u>BALANCE JUNE 30, 2002</u>
Land	\$ -	\$ 1,534,806	\$ -	\$ 1,534,806
Buildings and Improvements.....	-	4,177,500	-	4,177,500
Real Estate	1,732,904	-	1,732,904	-
Machinery and Equipment	4,220,875	790,179	338,352	4,672,702
TOTAL.....	<u>\$ 5,953,779</u>	<u>\$ 6,502,485</u>	<u>\$ 2,071,256</u>	<u>\$10,385,008</u>

NOTE 6 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 7). 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**. General obligations bonds and notes payable as of June 30, 2002, are comprised of the following individual issues:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
General Obligations Bonds:	
\$305,000, Series 2000, payable in semiannual installments ranging from \$20,000 to \$40,000, excluding interest at 5.00%, through July 1, 2010.....	\$ 285,000
\$525,000, Series 1996, payable in semiannual installments ranging from \$13,000 to \$36,000, excluding interest at 7.00%, through July 1, 2021 (Water and Waste Disposal Loans and Grants).....	468,000
\$205,939, Series 1996, actually in process of disbursement, interest at 4.50% (Water and Waste Disposal Loans and Grants).....	205,939

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
\$1,160,000, Series 1999, payable in semiannual installments ranging from \$80,000 to \$155,000, excluding interest from 7.00% to 7.08%, through July 1, 2009.....	\$ 990,000
\$1,700,000, Series 1993, payable in semiannual installments ranging from \$105,000 to \$245,000, excluding interest from 5.00% to 8.00%, through July 1, 2003.....	<u>470,000</u>
Total General Obligations – Bonds	<u>2,418,939</u>
Special Notes:	
\$3,455,000, Series 2001, payable in semiannual installments ranging from \$45,000 to \$290,000, excluding interest from 5.00% to 7.50%, through July 1, 2026.....	3,455,000
\$985,000, Series 2001, payable in semiannual installments ranging from \$170,000 to \$230,000, excluding interest from 5.00% to 7.50%, through July 1, 2006.....	985,000
\$1,510,000, Series 1999, payable in semiannual installments ranging from \$210,000 to \$300,000, excluding interest from 7.00% to 7.08%, through July 1, 2005.....	1,075,000
\$505,000, Series 1993, payable in semiannual installments ranging from \$20,000 to \$65,000, excluding interest from 4.375% to 8.0%, through July 1, 2009.....	<u>320,000</u>
Total Special Obligations – Bonds	<u>5,835,000</u>
Total Obligations Outstanding	<u>\$8,253,939</u>

At June 30, 2002 the Municipality has approved a Line of Credit in the amount of \$410,000 (total amount available not used at June 30, 2002) with the Government Development Bank. The Line of Credit was requested to develop a capital project financed with federal funds granted by Department of Agriculture, Rural Utilities Services.

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2002, are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2003	\$ 851,000	\$ 454,201	\$ 1,305,201
2004	927,000	489,128	1,416,128
2005	723,000	428,738	1,151,738
2006	788,000	374,478	1,162,478
After 2006	<u>4,964,939</u>	<u>3,473,215</u>	<u>8,438,154</u>
TOTAL	<u>\$8,253,939</u>	<u>\$ 5,219,760</u>	<u>\$13,473,699</u>

B. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES AND ADJUSTMENTS	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2002
Property Tax Advance - MRCC.....	\$ 203,767	\$ -	\$ -	\$ 203,767
Retirement System Administration.....	708,734	-	708,734	-
PR Department of Labor	202,195	-	202,195	-
Water and Sewer Authority	130,206	-	130,206	-
Social Security Administration.....	797,375	-	797,375	-
Income Tax Withheld.....	1,048,100	-	1,048,100	-
Department of Labor	7,061	-	7,061	-
State Health Insurance.....	-	989,083	-	989,083
Claims and Judgments.....	178,000	-	178,000	-
Compensated Absences	1,437,247	29,455	-	1,466,702
PR Electric Power Authority	37,807	-	37,807	-
PR Telephone Co.....	<u>85,452</u>	-	<u>85,452</u>	-
TOTAL	<u>\$4,835,944</u>	<u>\$1,018,538</u>	<u>\$ 3,194,930</u>	<u>\$2,659,552</u>

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2002:

DESCRIPTION	BALANCE JULY 1, 2001	ADJUSTMENTS	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2002
General.....	\$ 2,241,000	\$ 508,742	\$ 12,197	\$ 343,000	\$ 2,418,939
Notes.....	1,425,000	225,000	4,440,000	255,000	5,835,000
Others Debts.....	4,835,944	-	1,018,538	3,194,930	2,659,552
TOTAL	\$ 8,501,944	\$ 733,742	\$ 5,470,735	\$ 3,792,930	\$10,913,491

NOTE 7 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 8).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 6). 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 8 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 7.83% for real property and 5.83% for personal property of which 1.00% of both belongs to the Commonwealth of Puerto Rico and 6.00% and 4.00%, 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 1.25% 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 7). 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.

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. The Municipal Revenue Collection Center advances to the **Municipality**, on quarterly 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 exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt. The revenue for the basic contribution over property not exonerated is recorded in the General Fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center.

Due to the fact that collections of non-exonerated property taxes are applied to the advances of property tax send by the Municipal Revenue Collection Center, they are record as amortization of the advance in the General Long-Term Account Group, for the Prior Advance Property Taxes owed to Municipal Revenue Collection Center (MRCC), expenditures in the General Fund and recognized as revenue in accordance with GAAP. The balance of Advance of Property Taxes at June 30, 2002 is as follow:

	AMOUNT
Advance of Property Taxes at 07/01/01.....	\$ 203,767
Plus: Advance of Property Taxes - Current.....	2,579,639
Less: Amortization through Collection - Current.....	<u>(2,579,639)</u>
Advance of Property Taxes at 06/30/02.....	<u>\$ 203,767</u>

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 PROPERTY TAXES (continuation)

The Municipality had receivable of \$259,014 from Municipal Revenue Collection Center, for property tax revenue, according to Fiscal Year 2001-2002 Final Liquidation. The receivable was recognized at June 30, 2002 and a corresponding deferred revenue for the same amount was also recognized because is not available (see NOTE 1 C).

NOTE 9 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 with volume of sales less than \$200,000 and 0.50% for volume of sales in excess of \$200,000.

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 10 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consists primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, PR 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 11 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 retirements 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 GASB Number 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 accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. 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 program 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.

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:

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
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 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:

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

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 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 nonvested is not readily available.

Contributions in 2002 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, 2002 was approximately **\$490,170**. 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 are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the year ended June 30, 2002.

NOTE 12 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS

According to the Environmental Protection Agency's (EPA) regulations, the **Municipality** must follow certain closure functions and postclosure monitoring and maintenance procedures. In addition, the **Municipality** due adopted the **GASB Number 18** in order to comply with these regulations. Actually, the **Municipality** has one inactive landfill.

As of June 30, 2002, the **Municipality** is process to perform a study of the estimated landfill closing and postclosing costs to be recognized in the financial statements as require by this accounting policy.

NOTE 13 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 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.

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 counsels with the information currently available can not determine the final outcome of these claims. The financial statements do not include adjustment, if any, that could result from the others resolutions of legal proceeding. However, it has been the **Municipality's** experience that such actions are settled for amounts substantially less than the claimed amounts.

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 13 CONTINGENCIES (continuation)

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. It is the Municipality's opinion that no additional liabilities will arise from audits previously performed or to be performed.

NOTE 14 BEGINNING FUND BALANCES RESTATEMENT

Beginning Fund Balances Undesignated (Deficit) for General, Special Revenue and Capital Project Funds have been restated by accounting adjustments that affect the Fund Equity of these Governmental Funds, as follows:

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECT	DEBT SERVICE
Beginning Fund Balance (Deficit), July 1, 2001	(\$ 5,162,908)	\$ 3,402,890	(\$1,554,817)	\$1,084,743
Property Taxes Final Liquidation from Prior Years ..	-	-	-	228,885
Bonds Payments Recorded on Prior Year and According to Agency Confirmation belong to the Current Fiscal Year 2001-2002	-	-	-	651,300
Transactions Not Recorded on Prior Years	(177,870)	(227,449)	(12,074)	19,584
Recognition of Interfund Debt identified at June 30, 2001	-	1,328,394	-	-
Elimination of Interfund Debt not Supported	294,257	(999,151)	999,151	-
Elimination of Encumbrance Not Supported	-	-	580,030	-
Elimination of Account Payable Not Supported	4,352,610	-	2,455	-
Recognition of Current Puerto Rico Electric Power Authority Debt Classified as a GLTD in Prior Year ..	(37,807)	-	-	-
Elimination of Account Receivable Not Supported ..	(150,484)	-	-	-

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECT	DEBT SERVICE
Reclassify Fund Balance Previously Recorded as Investment in Property, Plant & Equipment	(1,682,970)	-	-	-
Recognition of Payable Not Registered	1,563,864	-	-	-
Elimination of Receivable from MRCC that were Recognized as Revenue	(311,837)	-	-	-
Recognition of Deferred Revenue of Federal Funds not Expended	-	(204,126)	-	-
Adjust Cash Accounts at June 30, 2001 according to Accounting Records	-	(1,160,079)	40,305	-
Beginning Fund Balance (Deficit) as Restated, July 1, 2001	<u>(\$1,313,145)</u>	<u>\$2,140,479</u>	<u>\$ 55,050</u>	<u>\$1,984,512</u>

NOTE 15 GASB STATEMENTS NUMBERS 34 (AS AMENDED), 37, 38 AND 39

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management's Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.
- B. Basic Financial Statements – should include:
 - 1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 GASB STATEMENTS NUMBERS 34 (AS AMENDED), 37, 38 AND 39 (continuation)

- a. Statement of Net Assets
- b. Statement of Activities
- 2. Fund Financial Statements – Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
- 3. Notes to the Financial Statements – One set of notes for both financial statements.
- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the **Municipality** in fiscal year beginning after June 15, 2002. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures. On May 2002, GASB No. 39 was issued that amend GASB 14 by established additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2003. Earlier application is encouraged.

END OF NOTES

PART II

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

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Direct Programs:			
Water and Waste Disposal Loans and Grants	10.770		\$ <u>12,197</u>
Pass-Through Department of Education:			
Indirect Programs:			
Child and Adult Care Food Program	10.558	N/AV	<u>5,723</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	RQ066-VO	340,927
Indirect Programs:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP)	14.228	01-FD-32 00-FD-32 99-FD-32 98-FD-32 97-FD-32 96-FD-32 95-FD-32 94-AF-FD-32	<u>1,425,386</u>
Total U.S. Department of Housing and Urban Development			<u>1,766,313</u>
U.S. Department of Justice:			
Public Safety Partnership and Community			
Policing Grants	16.710		26,685
Local Law Enforcement Block Grant	16.592		<u>60,000</u>
Total U.S. Department of Justice			<u>86,685</u>
U.S. Health and Human Services:			
Pass Through Administration of Families and Children:			
Child Care and Development Block Grant	93.575		<u>192,113</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,063,031</u>

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

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Isabela, Puerto Rico (Municipality)** and is presented on the modified accrual basis. 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 general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

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 generally accepted accounting principles.
- 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/AV are not available.

NOTE 5 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Type as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures.....	\$1,133,745	\$ 929,286	\$2,063,031
State & Municipal Expenditures	<u>1,743,504</u>	<u>156,132</u>	<u>1,899,636</u>
TOTAL EXPENDITURES	<u>\$2,877,249</u>	<u>\$1,085,418</u>	<u>\$3,962,667</u>

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 LOAN OUTSTANDING

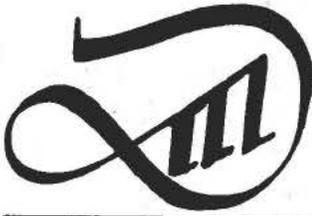
The **Municipality of Isabela, Puerto Rico** had the following outstanding balance at June 30, 2002 for Water and Waste Disposal Loans Programs. For these loans the grantor does not impose continuing compliance requirements, as described on the OMB Circular A-133. Therefore, the prior year balances are not considered expenditures on the Schedule of Expenditures of Federal Awards. The amount presented in the Schedule, represent federal expenditures according to modified accrual basis of accounting (see Note 2). The loans outstanding balances were included in the **Municipality's** General Long-Term Account Group (see Note 5 of the Notes to General-Purposes Financial Statements).

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNT OUTSTANDING</u>
Water and Waste Disposal Loans and Grants	10.770	\$205,939
Water and Waste Disposal Loans and Grants	10.770	468,000

NOTE 7 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



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P R 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

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 Isabela, Puerto Rico**

We have audited the financial statements of **Municipality of Isabela, Puerto Rico (Municipality)** as of and for the year ended June 30, 2002, and have issued report thereon dated March 19, 2003, which was qualified because we been able to audit the fixed assets of the General Fixed Assets Account Group, for the inadequacy of inter-fund cash transactions and corresponding due from and due to account balances, and for no provision for liability of landfill closing and postclosing costs. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality'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 financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider being reportable condition. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-II-01 and 02-II-02.

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

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above being material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated March 19, 2003.

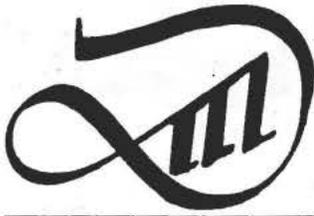
This report is intended for the information of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
March 19, 2003





CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P R 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

**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 Isabela, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Isabela, 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 year ended June 30, 2002. The **Municipality's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality'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.

As described in items 02-III-04, 02-III-06 through 02-III-12 in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirements regarding Equipment and Real Property Management that are applicable to its State Block Grant Program and Special Test and Provisions that are applicable to its Section 8 Housing Choices Vouchers Program. Compliance with such requirements is necessary, in our opinion, for **Municipality** to comply with the requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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 fiscal year ended June 30, 2002. The results of our auditing procedures disclosed others instance 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 02-III-01 through 02-III-03 and 02-III-05.

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

Page 2

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.

We noted certain matters involving the internal control over compliance and its operation that we consider being 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 02-III-01 through 02-III-05.

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, of the reportable conditions described above, we consider item 02-III-04 being material weakness.

This report is intended for the information of the audit committee, 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.

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
March 19, 2003



PART III
FINDINGS AND QUESTIONED COSTS

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

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
14.228	State Block Grant Program (SBGP)
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During our examination of Municipality's property records and reports, we noted the following deficiencies: (a) balance in computerized property records and reports do not reconcile with the ending balances reported in the General Ledger; (b) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balance. <i>(This is a prior year finding.)</i>
CRITERIA	Article 9.002 of State Act Number 81 of August 30, 1991 states that Municipality should maintain updated property accounting records.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement such as monthly reconciliation between General Ledger account balances and Property Subsidiary Ledger.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-II-02
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS
CONDITION	During our examination of Municipality's inter-fund cash transactions and corresponding due from and due to account balances for the fiscal year 2001-2002, we were unable to determine any specific amounts of inter-fund debt because of the inadequacy of the accounting records.
CRITERIA	Article 8.010 of State Act Number 81 of August 30, 1991 states that Municipality should maintain accurate accounting records and funds controls.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding cash and interfunds transactions.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-1
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	During our Grant Disbursements Test we noted that there was one (1) disbursement voucher without purchase order and two (2) vouchers did not have a receiving report.
CRITERIA	OMB Circular A-87 has established that a cost allocable to a particular Federal award must be adequately documented to be allowable. Also Subpart C, 24 CFR 85.20 (b)(2)(6) has established that transaction posted on accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.
CAUSE	Municipality failed to maintain an adequate control over the record keeping of documents that justify the disbursements.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.20 (b)(2)(6).
RECOMMENDATION	Municipality should implement adequate procedures to ensure that all disbursement transactions are properly authorized, contain all supporting documents, and that documents related to disbursements are kept in a safe place.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Starting in July 2003, all payments and cancellation of documents are to be processed through the centralized Finance Department Pre-Audit Division, which includes the verification of all federal programs' payments, will be processed. Also this process will permit that the transactions will be immediately recorded in the central computerized accounting system. Such new process for federal disbursements will avoid such situations. Federal Grant Office Director was specifically address to avoid exceptions in the system and to systematically revise the new implemented internal control. Once documents are revised and approved, payments will be processed. Pre-Audit Division will verify such compliance.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-2
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	Federal Financial Assistance is sometimes requested and not used to cover immediate expenditures incurred.
CRITERIA	Code of Federal Regulations, 24 CFR Subpart I, Section 570.487(c) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for SBGP activities, according with Treasury Circular 1075.
CAUSE	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	It could be understood that Federal Program Department is requesting funds in excess of the immediate expenditures incurred.
RECOMMENDATION	We recommend management to review their forecast procedures in order to comply with this requirement.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Federal Grants Office Director (FGOD) and finance personnel have been instructed to request funds based on computations of immediate needs. In order to verify such requests, FGOD will submit such computations before the request is submitted.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-3
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant Files Test we noted that participant files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.
CRITERIA	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 Municipality 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 Municipality and to HUD such information as the Municipality and HUD determines to be necessary. Also it is stated on 24 CFR, Subpart K, Section 982.516 (g).
CAUSE	Municipality 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, the consent form may authorize the collection of other information from applicants and participants to determine eligibility or level of benefits.
EFFECT	Municipality 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).
RECOMMENDATION	We recommended 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.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Federal Grants Office Director (FGOD) has been instructed and is in process to request to all participants, on a case by case basis, the update and completion of forms, and to include these in the participant files in accordance with Subpart F, Section 5.617(b); Subpart B, Section 5.230(a); and Subpart K, Section 982.516 (g). The program documents (forms) filling and correction is expected to be completed by April 30, 2003. FGOD will submit on a monthly basis progress reports to the Internal Auditor, Finance Director, Municipal Legislature and Mayor on the program special provisions performance and correction of findings mentioned on items 6, 7, 8 and 9 starting on April 2003.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-4
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	The Federal Program Department does not have a Property Register that includes the equipment cost, acquisition date, use and condition of property, grant or agreement, who is the legal owner and percentage of federal participation in costs. The equipment records don't have a proper file in which they can indicate the unit's condition and who the assigned person is.
CRITERIA	Code of Federal Regulation, Subpart C, 24 CFR 85.32(d)(1), states that property records must be maintained that includes a description of the property, serial number or other identification number, the source of property, percentage of Federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of disposal, sale price of property. Also, a physical inventory of the property must be taken and the result reconciled with the property records at least once every two years, respectively.
CAUSE	There is no internal control procedures implemented to assure that a Property Register is maintained and includes all necessary information, as required by Subpart C, 24 CFR 85.32 (d)(1) of Common Rules.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d)(1).
RECOMMENDATION	We recommend management to implement internal control procedures to assure that a property register of federal program is maintained.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Federal Grants Office Director (FGOD) has been instructed and is in process to implement a Property Register in accordance to federal regulations by May 30, 2003. FGOD will submit on a monthly basis progress reports to the Internal Auditor, Finance Director, Municipal Legislature and Mayor on the program Property Register findings starting on April 2003. In addition, register documentation and process will be also covered with the implementation with GASBS 34.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-5
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	The model for construction contracts over \$10,000 used by the Municipality did not contain provisions such as: compliance with the provisions for termination by the grantee for default, Executive Order 11246 Equal Employment Opportunity, Davis-Bacon, contract work hours and safety standards, granting access to GAO or other federal agency to books and documents, Energy Policy and Conservation Act; as required by the program's regulations.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (b) (1-3) and Subpart C 49 CFR 18.36 (I)(1-13), states that sub-grantee's contract must contain provisions in 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.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (b) (1-3) and Subpart C 49 CFR 18.36 (I)(1-13) of OMB Common Rules.
CAUSE	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures; in order to assure that contractor complied with these requirements.
RECOMMENDATION	We recommend management to update contract model according with the federal requirements.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	The municipal construction contract model and professional service contract was recently revised by our legal counsel. A new model has been prepared including therewith the required federal provisions for termination by the grantee for default, Executive Order 11246 Equal Employment Opportunity, Davis-Bacon, contract work hours and safety standards, granting access to GAO or other federal agency to books and documents, Energy Policy and others.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-6
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our waiting list test, we noted that the list did not contain the required information to assure that the selection of new tenants admitted to the program where in accordance with the Public Housing Agency tenant selection policies.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart E, Section 982.204 (b) states that the waiting list that the Municipality maintains must contain the following information for each applicant listed: applicant name, family unit size, date and time of application, qualification for any ranking preference or local preference and racial or ethnic designation of the head of household.
CAUSE	Municipality does not maintain the complete information on the waiting list and does not guarantee the correct selection of the applicants.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart E, Section 982.204 (b).
RECOMMENDATION	We recommended management to revise the waiting list and complete it according to regulation.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Federal Grants Office Director (FGOD) has been instructed and is in process to update and complete the waiting list schedule in accordance with Section 982.204 (b) including applicant name, family size, date and time of application, qualification for any ranking preference, etc. The program waiting list correction is expected to be completed by April 30, 2003.

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-7
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test, we noticed that tenant files did not include any document which evidenced the determination that the rent being paid to the owner of the housing unit is reasonable in accordance with the Municipality's administrative plan initially, and during the contract term.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (f) (7) states that the Municipality must maintain records to document the basis for the Municipality's determination that the rent to owner is a reasonable rent (initially and during the term of the HAP contract).
CAUSE	Municipality did not implement any procedures in order to document the reasonableness of the amount of rent being paid to the housing unit's owner.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (f) (7).
RECOMMENDATION	We recommend management to document the basis for the determination that the rent paid to the housing unit's owner is a reasonable one (initially and during the term of the HAP contract).
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-8
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our utility allowance schedule test, we noticed that the schedule has not been reviewed since July 1, 1995 as required by federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart K, Section 982.517 (4) (c) stated that the Municipality must review its schedule of utility allowance each year, and must adjust its allowance for a utility category if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. Also, the Municipality must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule.
CAUSE	Municipality did not establish procedures to ensure the accuracy of its utility allowance schedule.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart K, Section 982.517 (4)(c).
RECOMMENDATION	We recommend management to implement internal control procedures for the review of the utility allowance schedule each year and submit it to the federal agency for approval.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Federal Grants Office Director (FGOD) has been instructed and is in process to update and complete to allowance utility schedule. This is expected to be completed by June 30, 2003. Information of that documents the revision will be kept on program files. In order to complete this review the actual utility schedule, letter of requesting utility documentation will be address to program participants.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-9
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test, we noticed that thirteen (13) participant files did not have a unit inspection report.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (a) states that the Municipality must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. Also 24 CFR, Subpart D, Section 982.158 (d) stated that the Municipality must prepare unit inspection reports.
CAUSE	Municipality does not prepare an inspection report in order to document the required annual Housing Quality Standards Inspections and quality control re-inspections.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (a) and Section 982.158 (d).
RECOMMENDATION	We recommend management to document the Housing Quality Standards inspections as established under federal regulation.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Specific instructions have been addressed to the FGOD in order to comply with Section 982.158(d) to perform required HQS inspections and re-inspections on a regularly basis. HQS inspections to the program files commenced during second half of the fiscal year. Also municipal internal auditor will be assigned to audit this area and to test program personnel compliance with Sections 982.158(d). FGOD will submit on a monthly basis progress reports to the Internal Auditor, Finance Director, Municipal Legislature and Mayor on the program special provisions performance and correction of findings mentioned on items 3, 4 and 5 [Refer to Sections 928.54(b), 982.405(b) and 982.404].

continue

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-10
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our verification of units with failed Housing Quality Standards inspections, we noticed that in eight (8) participant's files there was no evidence of a unit inspection report or other verification documenting that any PHA-required repairs were completed.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.404 stated that the Municipality must not make any housing assistance payments for a dwelling unit that fails to meet the Housing Quality Standards, unless the responsible person (owner and/or participant) corrects the defect within the period specified by the Municipality , and the Municipality verifies the correction.
CAUSE	Municipality did not specify the time frames for the correction of the deficiencies. Also, Municipality did not verify the correction of the Housing Quality Standards deficiencies; therefore, the Municipality fails to take prompt and vigorous action to enforce the owner and/or participants obligations.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart I, Section 982.404.
RECOMMENDATION	We recommend management to implement internal control procedures to establish a correction time period, to assure that the unit's Housing Quality Standards deficiencies were corrected during the specified period established by the federal regulation.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Specific instructions have been addressed to the FGOD in order to comply with Section 982.404 to perform monthly sample and tests to the HQS inspections on a regularly basis. Supervisory HQS inspections to the program files commenced during second half of the fiscal year. Also municipal internal auditor will be assigned to audit this area and to test program personnel compliance with Sections 982.404 and 405(b).

MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-11
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Housing Quality Standard Inspections test, we noticed that the Municipality did not perform supervisory quality control HQS inspections as required by federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.405 (b) states that the Municipality must conduct supervisory quality control HQS inspections. Also, 24 CFR, Subpart A, Section 985.2 (b) states that in order to conduct the supervisory quality control HQS inspection the Municipality must select an annual sample of files or records drawn in an unbiased manner and have them reviewed by a Municipality's supervisor (or by another qualified person other than the one who performed the original work) to determine if the work documented conforms to program requirements.
CAUSE	Municipality did not perform supervisory quality control HQS inspections as required by federal regulation.
EFFECT	Municipality does not comply with 24 CFR, Subpart I, Section 982.405 (b), and Subpart A, Section 985.2 (b).
RECOMMENDATION	We recommend management to implement the necessary procedures in order to make sure that inspections are performed in accordance to, and in compliance with federal regulation.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Specific instructions have been addressed to the FGOD in order to comply with Section 982.405(b) to perform monthly sample and tests to the HQS inspections on a regularly basis. Supervisory HQS inspections to the program files commenced during second half of the fiscal year.

continue

MUNICIPALITY OF ISABELA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-12
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	Municipality did not provide us with an updated Administrative Plan as required by federal regulations.
CRITERIA	Code of Federal Regulations, 24 CFR Subpart B, Section 928.54(a) states that the PHA must adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements. Also, 24 CFR Subpart B, Section 928.54(b) states that the administrative plan is a supporting document to the PHA plan and must be available for public review. Furthermore, Section 8 Guidebook, Chapter 3, Sections 3.1 and 3.2, specify the policies that must be covered by the administrative plan, and states that if HUD makes additional amendments or sets new requirements, it's the P H A's responsibility to update the plan so that it complies with those new requirements.
CAUSE	The Federal Programs Department did not implement the necessary procedures to assure compliance with all requirements and regulations.
EFFECT	The Federal Programs Department did not comply with program regulations regarding the creation of an administrative plan.
RECOMMENDATION	We recommend management to take all necessary measures in order to comply with said requirements and regulations.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Federal Grants Office Director (FGOD) is in charge to process, update and complete the actual Administrative Plan. New written Administrative Plan is expected to be completed by April 30, 2003.

END OF SCHEDULE

MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(1) Audit Findings that have been fully corrected:					
2001	01-III-2	Allowable Cost / Cost Principles – Missing signatures and canceled documents	14.228	NONE	System and procedures corrected.
	01-III-3	Period of Availability of Federal Funds – Difference in accounting records	14.228	NONE	System and procedures corrected.
(2) Audit Findings not Corrected or Partially Corrected:					
2001	01-III-1	Procurement Standards and Davis Bacon Act	14.228	NONE	The Secretarial Office of the Municipality was instructed to include in contracts all clauses required to ensure that adequate procedures and controls are established, implement and procurement procedures are carried on as specified by related laws, regulations and federal requirements. The Federal Programs Director will assign an employee that interview in the field the contractor's employees to ensure that all procedures and controls are established, implemented and properly executed. The same employee must review that the wages paid are in accordance with federal rates tables.
	01-III-4	Cash Management – Excess of Cash	14.228	NONE	Responsible personnel in Federal Programs Office were instructed to establish control and procedures to ascertain that the cash management procedures comply with all applicable laws, regulations and federal requirements.

continued

MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(2) Audit Findings not Corrected or Partially Corrected: (continuation)					
2001	01-III-5	Procurement Standards and Davis Bacon Act	10.766	NONE	<p>The Secretarial Office of the Municipality was instructed to include in contracts all clauses required to ensure that adequate procedures and controls are established, implement and procurement procedures are carried on as specified by related laws, regulations and federal requirements.</p> <p>The Federal Programs Director will assign an employee that interview in the field the contractor's employees to ensure that all procedures and controls are established, implemented and properly executed. The same employee must review that the wages paid are in accordance with federal rates tables.</p>

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

NONE

(4) Audit findings is no longer valid:

NONE

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."

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

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

1. Fiscal period ending date for this submission: Month 06 / Day 30 / Year 2002. 2. Type of Circular A-133 audit: 1 [X] Single audit. 3. Audit period covered: 1 [X] Annual. 4. Date received by Federal clearinghouse. 5. Employer Identification Number (EIN): 660433796. b. Are multiple EINs covered in this report? 2 [X] No.

AUDITEE INFORMATION

a. Auditee name: MUNICIPIO DE ISABELA. b. Auditee address: P.O. BOX 507, ISABELA, PR. ZIP + 4 Code: 00562-0507. c. Auditee contact Name: CARLOS DELGADO ALTIERI, Title: MAYOR. d. Auditee contact telephone: (787) 872-2100. e. Auditee contact FAX (Optional): (787) 872-0300. f. Auditee contact E-mail (Optional):

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name: CPA DIAZ-MARTINEZ, PSC. b. Auditor address: P.O. BOX 8369, CAGUAS, PR. ZIP + 4 Code: 00726-6369. c. Auditor contact Name: JOSE 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.

Signature of certifying official: [Signature] Date: 04 / 01 / 03. Printed Name/Title of certifying official: CARLOS DELGADO ALTIERI, MAYOR

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

Signature of auditor: [Signature] Date: 03 / 31 / 03

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 non-compliance 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 exceeding greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (ICPA SOL 10-3 chapter 10) 1 Yes 2 No
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ ____, .52(b)) \$ 300,000
4. Did the auditee qualify as a low-risk auditee? (§ ____, .53) 1 Yes 2 No
5. Is 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? (§ ____, 15(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 | 86 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 8 <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 | 4 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.
 In addition, one copy each of the reporting package is required for:
 • the Federal Audit Clearinghouse archives
 • and, if not marked above, the cognizant agency (if identified in Part I, Item 9)
 Count total number of boxes marked above and submit this number of reporting packages

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS - Continued (Form SF-SAC of 1)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS	
CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1 0	.770	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WATER AND WASTE DISPOSAL LOANS AND GRANTS	\$ 12,197 .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 0	.558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 5,723 .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	.871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 340,927 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	EN	02-II-3,6,7,8,9,10,11,12
1 4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 1,425,386 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	BCFI	02-II-1,2,4,5
1 6	.710	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	\$ 26,685 .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 6	.592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 60,000 .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	\$ 1,113 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED				\$ 2,002,031 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., non-compliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 501(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, cost sharing	L. Reporting	P.. Other
C. Cash management	H. Period of availability of Federal funds	M. Subrecipient monitoring	
D. Davis - Bacon Act	I. Procurement and suspension and debarment	N. Special tests and provisions	
E. Eligibility	J. Program income		

⁴ N/A for NONE

EIN:

PART I Item 5 Continuation Sheet

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

1		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.