

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

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

OFIC. DEL COMISIONADO
DE ASUNTOS FINANCIEROS
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2003

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

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

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BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003
(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE
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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Isabela, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2003, which collectively comprise the **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

The accompanying Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 29 and 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

INDEPENDENT AUDITORS' REPORT

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In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2004 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



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

Caguas, Puerto Rico
January 15, 2004



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The management of Municipality of Isabela offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow. The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003. The new financial reporting model and the new financial statements associated with it are described in the following narrative as well as in the Notes to Financial Statements.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The assets of the Municipality exceeded its liabilities at June 30, 2003 by \$18.1 million (*net assets*).
- The Municipality's total net assets increased by \$2.4 million.
- As of June 30, 2003, the Municipality's governmental funds reported combined ending fund balances of \$5.6 million.
- The Municipality's capital assets increase as a result of this year's operations. Capital assets as of June 30, 2003 are \$22.2 million.
- The investment in capital assets for this year is \$ 1.7 million.
- Loans principal payments were \$1.1 millions in 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality of Isabela's finances, in a manner similar to a private-sector business.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Municipality include general government, public safety, public works, human services and welfare, culture and recreation, physical environment, education and urban development. Property taxes, municipal license tax, state and federal grants finance most of these activities. The Municipality does not have at present business-type activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and other major governmental funds to demonstrate compliance with these budgets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major special revenue funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality of Isabela, assets exceeded liabilities by \$18.1 million as of June 30, 2003. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

Table 1
Municipality of Isabela's Net Assets
(In Millions)

	Governmental Activities
Current and other assets	\$12.5
Capital assets	<u>22.2</u>
Total assets	<u>34.7</u>
Long-term debt outstanding	9.9
other liabilities	<u>6.6</u>
Total liabilities	<u>16.5</u>
Net assets:	
Invested in capital assets, net of related debt	18.9
Restricted	8.4
Unrestricted (Deficit)	<u>(9.2)</u>
Total net assets	<u>\$18.1</u>

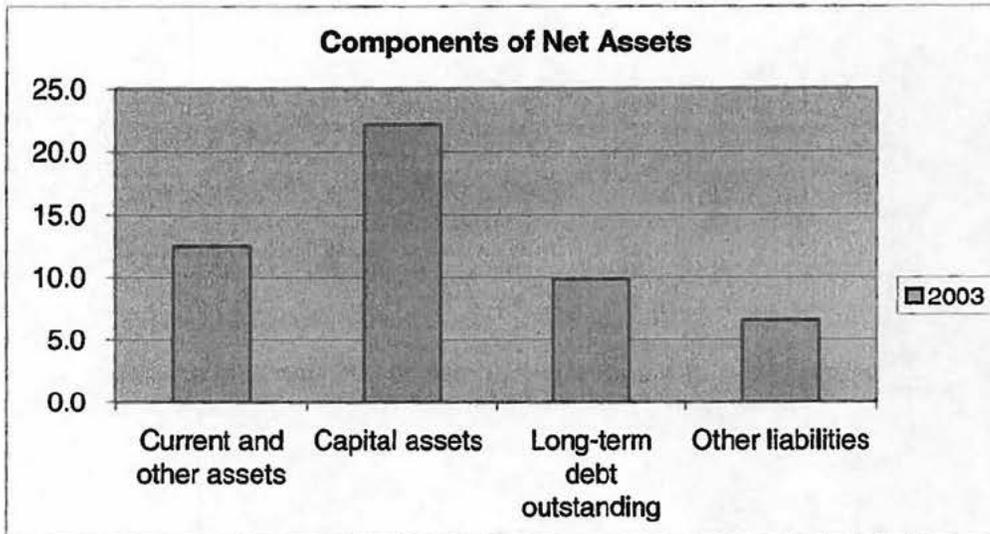
The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted (deficit) net assets corresponds to long-term debts of prior years used to finance operation when insufficient resources were obtained.

Total net assets of the Municipality's governmental activities were \$18.1 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Governmental Activities

Governmental activities increased the Municipality's net assets by \$3.5 million. Key elements of this increase are as follows: The Municipality's governmental activities had net expenses of \$12.4 million. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did exceed net expenses by \$2.4 million. The Municipality experienced a substantial increase in property taxes due to growth in the assessed valuation of property within the Municipality.

The cost of all governmental activities this year was \$15.8 millions. Table 2 presents the cost of each of the Municipality of Isabela's largest programs.

Table 2
Total cost of services
(In Millions)

	Governmental Activities
	2003
General Government	\$ 6.4
Public Works	2.4
Health and Welfare	3.6
Public Safety	1.0
Culture and Recreation	0.6
Urban development	1.0
Others	0.8
Totals	\$15.8

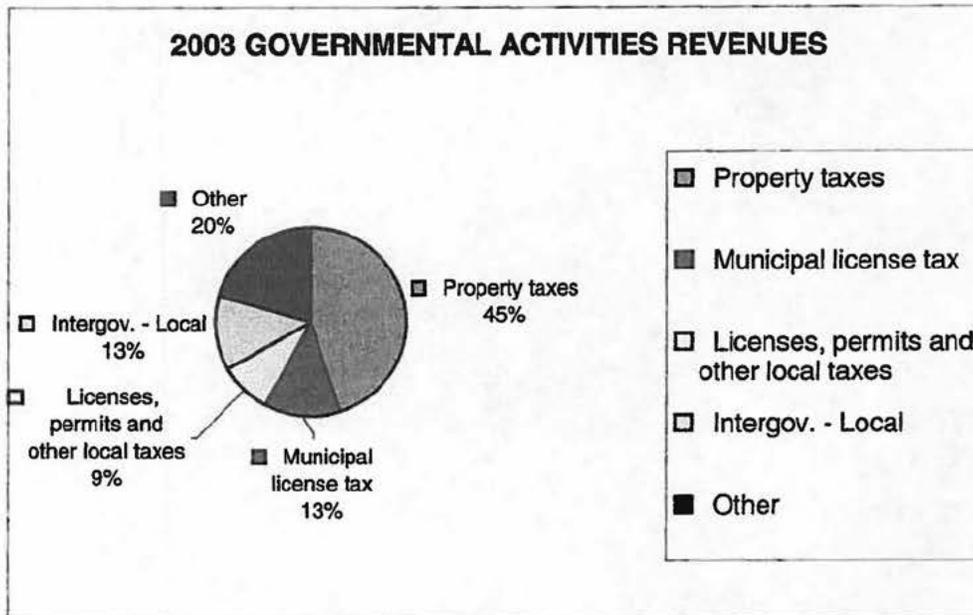
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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The following chart presents the revenues for the current fiscal year.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2003, the Municipality's governmental funds reported combined ending fund balances of \$5.6 million.

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the *Basic Financial Statements* for the General Fund. The *Budgetary Comparison* Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances or unanticipated revenues. Differences between the original budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- Revenues primarily increased from collections of municipal license taxes, which resulted in a \$329,716 increase in the original budget; as a result, the Municipality culminated its year end operations with a \$335,973 surplus in Municipal license tax collections.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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- Revenues also increased as a result of a \$305,273 reimbursement from Puerto Rico Power Authority related to prior years excessive billings.
- The original budget was amended to increase expenditures \$1.2 million, principally in the General Government, Public Works and Health and Welfare functions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003, the Municipality of Isabela had \$22.2 million invested in a broad range of capital assets, and equipment. (See Table 3).

Table 3
Municipality of Isabela's Capital Assets
(Net of depreciation, in millions)

	Governmental Activities
Land	\$ 1.5
Buildings and improvements	3.9
Equipment	8.4
Infrastructure	8.4
Total	\$22.2

The Municipality's investment in capital assets for its governmental and business type activities as of June 30, 2003 amounted to \$22.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was 8 percent.

Major capital asset events during the fiscal year included the following:

- Completion of the expansion of the Water Front Enterprise Center (\$643,542).
- Acquisition of 6 acres of land to commence construction of Municipal Horse competition and Rodeo facilities (\$255,500).
- Reconstruction and pavement of deteriorated roads and streets (\$207,980).
- Improvement to the "Villa Pesquera" Fisherman's facilities (\$873,067).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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Long-term Debt

At June 30, 2003 the Municipality had total of \$12.4 million in bonds and notes outstanding, as shown in Table 4. Of this amount, \$6.7 million comprises debt backed by the full faith and credit of the government and \$5.7 million is other obligations.

**Table 4
Municipality of Isabela's Outstanding Debt
(In Millions)**

	Governmental Activities
Bonds payable	\$ 6.7
Other obligations	5.7
Total	\$12.4

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, claims and judgments, and landfill obligation. More detailed information about the Municipality's long-term liabilities is presented in Note 7 to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and Enterprise Fund revenues.

- The unemployment rate for the Municipality is currently 24.3 percent.
- Tourist visitors during 2003 increased steadily and is expected to continue impart due to the rapid development of Isabela's costal recourses.

All of these factors were considered in preparing the Municipality's budget for the 2004 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department Director, Municipality of Isabela, PO Box 507, Isabela, and Puerto Rico 00662.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2003

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Cash Equivalents	\$ 4,443,036
Cash with Fiscal Agent	1,609,166
Receivables:	
Property Taxes	191,938
Federal Grant	2,821,891
Others	275,325
Restricted Assets-Construction:	
Fiscal Agent	67,684
Other	3,125,432
Capital Assets (Notes 1 & 6):	
Land, Improvements, and Construction in Progress	1,537,443
Other Capital Assets, Net of Depreciation]	<u>20,665,257</u>
Total Capital Assets	<u>22,202,700</u>
TOTAL ASSETS	<u>34,737,172</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	2,544,089
Accrued Interest	141,912
Deferred Revenue	1,533,948
Long-Term Liabilities (Note 7):	
Due within One Year	2,452,445
Due in More than One Year	<u>9,992,000</u>
Total Liabilities	<u>16,664,394</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	20,326,700
Restricted for:	
Capital Projects	67,684
Debt Service	625,216
Public Ordinance	44,405
SBGP	2,486,777
Section 8	164,066
Special Fund	3,125,432
Other Purposes	509,683
Unrestricted (Deficit)	<u>(9,277,185)</u>
TOTAL NET ASSETS	<u>\$18,072,778</u>

See accompanying Notes to Basic Financial Statements.

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
General Government.....	\$ 6,376,667	\$ 32,214	\$ 363,850	\$ -	(\$ 5,980,603)
Public Safety.....	1,040,173	-	165,333	-	(874,840)
Public Works.....	2,442,185	-	413,683	713,100	(1,315,402)
Solid Waste Disposal.....	160,000	-	-	-	(160,000)
Human Services and Welfare.....	3,615,806	-	-	-	(3,615,806)
Culture and Recreation.....	596,370	-	-	-	(596,370)
Urban Development.....	1,022,914	-	1,466,174	-	443,260
Education.....	259,255	-	298,483	-	39,228
Interest on Long-Term Debt	341,423	-	-	-	(341,423)
Total Governmental Activities.....	<u>\$15,854,793</u>	<u>\$ 32,214</u>	<u>\$ 2,707,523</u>	<u>\$ 713,100</u>	<u>(12,401,956)</u>
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes.....					6,610,444
Property Taxes, levied for Debt Service					793,383
Volume of Business Taxes					1,933,105
Construction Taxes.....					523,129
Intergovernmental.....					1,929,686
Rent.....					82,354
Miscellaneous					<u>2,973,954</u>
Total General Revenues and Transfers.....					<u>14,846,055</u>
CHANGE IN NET ASSETS.....					2,444,099
Net Assets – Beginning of Year.....					<u>15,628,679</u>
NET ASSETS – ENDING OF YEAR.....					<u>\$18,072,778</u>

See accompanying Notes to Basic Financial Statements.

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

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2003

	<u>GENERAL</u>	<u>SECTION 8</u>	<u>SBGP</u>	<u>DEBT SERVICE</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS						
Cash and Investments (Note 1).....	\$ 3,605,494	\$ 169,066	\$ 3,006	\$ -	\$ 665,470	\$ 4,443,036
Cash with Fiscal Agent.....	-	-	-	1,609,166	-	1,609,166
Receivables:						
Property Taxes.....	191,938	-	-	-	-	191,938
Federal Grants.....	-	-	2,774,842	-	47,049	2,821,891
Due from Other Funds.....	240,584	-	-	-	-	240,584
Others.....	241,330	6,033	-	27,962	-	275,325
Restricted Assets:						
Cash Held by Fiscal Agent.....	67,684	-	-	-	-	67,684
Construction.....	3,125,432	-	-	-	-	3,125,432
Total Assets.....	<u>\$ 7,472,462</u>	<u>\$ 175,099</u>	<u>\$ 2,777,848</u>	<u>\$ 1,637,128</u>	<u>\$ 712,519</u>	<u>\$12,775,056</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable.....	\$ 1,304,305	\$ 2,582	\$ 253,179	\$ 870,000	\$ 8,602	\$ 2,438,668
Accrued Interest.....	-	-	-	141,912	-	141,912
Due to Governmental Units.....	105,421	-	-	-	-	105,421
Due to Other Funds.....	-	8,451	37,899	-	194,234	240,584
Deferred Revenues:						
Volume of Business Tax.....	1,432,085	-	-	-	-	1,432,085
Local Grants.....	-	-	-	-	-	-
Federal Grants.....	-	-	2,486,770	-	-	2,486,770
Others.....	293,808	-	-	-	-	293,808
Total Liabilities.....	<u>3,135,619</u>	<u>11,033</u>	<u>2,777,848</u>	<u>1,011,912</u>	<u>202,836</u>	<u>7,139,248</u>
Fund Balances:						
Reserve For:						
Debt Service.....	-	-	-	625,216	-	625,216
Public Ordinance.....	44,405	-	-	-	-	44,405
Capital Projects.....	67,684	-	-	-	-	67,684
Construction.....	3,125,432	-	-	-	-	3,125,432
Unreserved:						
Designated Future Expenditures.....	-	164,066	-	-	509,683	673,749
Undesignated.....	1,099,322	-	-	-	-	1,099,322
Total Fund Balances.....	<u>4,336,843</u>	<u>164,066</u>	<u>-</u>	<u>625,216</u>	<u>509,683</u>	<u>5,635,808</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 7,472,462</u>	<u>\$ 175,099</u>	<u>\$ 2,777,848</u>	<u>\$ 1,637,128</u>	<u>\$ 712,519</u>	<u>\$12,775,056</u>

See accompanying Notes to Basic Financial Statements.

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

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

JUNE 30, 2003

Total Fund Balances – Governmental Funds (Page 14) \$ 5,635,808

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

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

Non Depreciable Capital Assets	\$ 1,537,443	
Depreciable Capital Assets	15,064,253	
Infrastructure Assets	9,411,501	
Accumulated Depreciation	<u>(3,810,497)</u>	
Total Capital Assets		22,202,700

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

SBGP	2,486,777	
General Fund	<u>191,938</u>	
Total Deferred Revenues		2,678,715

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

General Bonds and Notes Payable.....	6,726,000	
Compensated Absences.....	1,718,445	
Landfill.....	<u>4,000,000</u>	
Total Long-Term Liabilities.....		<u>(12,444,445)</u>

Total Net Assets of Governmental Activities (Page 13)..... \$18,072,778

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>GENERAL</u>	<u>SECTION 8</u>	<u>SBGP</u>	<u>DEBT SERVICE</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES						
Property Taxes	\$ 6,418,506	\$ -	\$ -	\$ 793,383	\$ -	\$ 7,211,889
Volume of Business Taxes	1,933,105	-	-	-	-	1,933,105
Federal Assistances	-	355,613	936,489	-	877,499	2,169,601
Intergovernmental	3,006,636	-	-	-	-	3,006,636
Licenses and Permits	523,129	-	-	-	-	523,129
Rent	82,354	-	-	-	-	82,354
Miscellaneous	<u>3,006,168</u>	-	-	-	-	<u>3,006,168</u>
Total Revenues.....	<u>14,969,898</u>	<u>355,613</u>	<u>936,489</u>	<u>793,383</u>	<u>877,499</u>	<u>17,932,882</u>
EXPENDITURES						
Current:						
General Government	6,038,967	-	-	-	-	6,038,967
Public Safety	766,507	-	-	-	213,625	980,132
Public Works	1,989,647	-	-	-	479,208	2,468,855
Culture and Recreation.....	478,851	-	-	-	-	478,851
Human Services and Welfare.....	3,615,806	-	-	-	-	3,615,806
Urban Development.....	-	341,425	936,489	-	-	1,277,914
Education	-	-	-	-	259,255	259,255
Capital Outlay	1,369,817	-	-	-	-	1,369,817
Debt Service:						
Principal	36,275	-	-	1,061,629	-	1,097,904
Interest and Other Charges	<u>14,726</u>	-	-	<u>326,697</u>	-	<u>341,423</u>
Total Expenditures.....	<u>14,310,596</u>	<u>341,425</u>	<u>936,489</u>	<u>1,388,326</u>	<u>952,088</u>	<u>17,928,924</u>
OTHER FINANCING SOURCES (USES)						
Transfers – In	10,589	-	-	-	-	10,589
Transfers – Out	-	-	-	(10,589)	-	(10,589)
Total Other Financing Sources and Uses.....	<u>10,589</u>	-	-	<u>(10,589)</u>	-	-
Net Change in Fund Balances.....	669,891	14,188	-	(605,532)	(74,589)	3,958
Fund Balance – Beginning, as Restated (Note 15)	<u>3,666,952</u>	<u>149,878</u>	-	<u>1,230,748</u>	<u>584,272</u>	<u>5,631,850</u>
FUND BALANCES – ENDING	<u>\$ 4,336,843</u>	<u>\$ 164,066</u>	<u>\$ -</u>	<u>\$ 625,216</u>	<u>\$ 509,683</u>	<u>\$ 5,635,808</u>

See accompanying Notes to Basic Financial Statements.

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net Change in Fund Balances – Total Governmental Funds (Page 16) \$ 3,958

Amounts reported for Governmental Activities in the Statement of Activities (Page 13)
are different because:

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

Capital Outlay	\$ 2,041,246	
Depreciation Expense	<u>(653,276)</u>	
Excess of Capital Outlay over Depreciation Expense		1,387,970

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		366,010
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Some expenses reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental funds.
These activities consist of:

Increase in Compensated Absences	(\$ 251,743)	
Increase in Landfill	(160,000)	
Decrease in Other Debt	<u>1,097,904</u>	
Total Additional Expenditures		<u>686,161</u>

Change in Net Assets of Governmental Activities (Page 13)..... \$ 2,444,099

See accompanying Notes to this financial statement.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

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

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

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

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

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

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

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

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

A. Financial Reporting Entity

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

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

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

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

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Measurement Focus and Basis of Accounting (continuation)

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

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

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

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

C. Financial Statement Presentation

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

Government-wide Financial Statements

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

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

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

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

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

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

Governmental Fund Financial Statements

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

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

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Financial Statement Presentation (continuation)

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

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

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

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

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

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

Section 8 Housing Choice Vouchers – This is the fund is used to account for all the transactions of the Section 8 Housing Choice Vouchers Program. The primary objectives of this program is to provides rental assistance to help very low income families afford, safe, and sanitary rental housing.

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

D. Budgetary Data

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

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

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

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

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

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

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

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

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

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

E. Cash, Cash Equivalent and Investment

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

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

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

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

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

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

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

I. Compensated Absences

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

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 7 on page 25).

J. Insurance

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

K. Interfund Transactions

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

columnar presentation. The **Municipality** has the following types of transactions among funds:

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

L. Reservations of Fund Balance – Governmental Funds

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

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

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

M. Claims and Judgments

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

N. Use of Estimates

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

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

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

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	TABLE 3 EXPIRATION DATE
Popular Bank of Puerto Rico ...	1110000015	\$ 303,699	2.50%	08-15-03
Popular Bank of Puerto Rico ...	1110000020	1,017,406	2.00%	11-08-03
Popular Bank of Puerto Rico ...	1110000014	455,119	2.50%	08-15-03
Popular Bank of Puerto Rico ...	1110000022	205,739	2.00%	12-14-03
Popular Bank of Puerto Rico ...	1110000021	203,291	2.00%	12-13-03
Popular Bank of Puerto Rico ...	1110000018	600,000	2.00%	09-15-03
Popular Bank of Puerto Rico ...	1110000017	120,000	1.75%	12-12-03
TOTAL		<u>\$2,905,254</u>		

All investments are recognized in the General Fund.

NOTE 3 OTHERS RECEIVABLES

As of June 30, 2003, the amount of \$191,938 corresponds to revision of Intergovernmental Revenue from Municipal Revenue Collection Center, \$107,660 correspond to prepaid taxes, and \$133,670 from others.

NOTE 4 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

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

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			TABLE 4
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
Debt Service Fund	General Fund	<u>\$10,589</u>	Interests
Total		<u>\$10,589</u>	

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

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

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 5 AMOUNT
General Fund	SBGP	\$ 37,899
General Fund	Section 8	8,451
General Fund	Other Governmental Fund	<u>194,234</u>
TOTAL		<u>\$ 240,584</u>

NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS

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

TABLE 6	AMOUNT
Water Company	\$ 93,291
General Services Administration	<u>12,130</u>
Total Due to Governmental Units	<u>\$105,421</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 CAPITAL ASSETS

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

TABLE 7	BALANCE JULY 1, 2002	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2003
Non-Depreciable Capital Assets:				
Land	\$ 1,281,943	\$ 255,500	\$ -	\$ 1,537,443
Total Non-Depreciable Capital Assets.....	<u>1,281,943</u>	<u>255,500</u>	<u>-</u>	<u>1,537,443</u>
Depreciable Capital Assets:				
Equipment.....	5,469,183	263,337	-	5,732,520
Buildings	7,809,324	1,522,409	-	9,331,733
Infrastructure.....	<u>9,411,501</u>	<u>-</u>	<u>-</u>	<u>9,411,501</u>
Total Depreciable Capital Assets.....	<u>22,690,008</u>	<u>1,785,746</u>	<u>-</u>	<u>24,475,754</u>
Less Accumulated Depreciation:				
Equipment.....	(1,467,481)	(343,047)	-	(1,810,528)
Buildings	(766,965)	(140,822)	-	(907,787)
Infrastructure.....	<u>(922,775)</u>	<u>(169,407)</u>	<u>-</u>	<u>(1,092,182)</u>
Total Accumulated Depreciation.....	<u>(3,157,221)</u>	<u>(653,276)</u>	<u>-</u>	<u>(3,810,497)</u>
Total Depreciable Capital Assets (Net).....	<u>19,532,787</u>	<u>1,132,470</u>	<u>-</u>	<u>20,665,257</u>
CAPITAL ASSETS, NET	<u>\$20,814,730</u>	<u>\$ 1,387,970</u>	<u>\$ -</u>	<u>\$22,202,700</u>

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

TABLE 8	AMOUNT
General Government	\$ 85,957
Public Safety	60,041
Public Works	389,759
Culture and Recreation.....	<u>117,519</u>
Total Depreciation Expenses	<u>\$653,276</u>

NOTE 7 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

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

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

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$305,000, Series 2000, for construction purposes, payable in semiannual installments ranging from \$20,000 to \$40,000, excluding interests at 5.0%, through July 1, 2010.....	\$ 235,000
\$525,000, Series 1996, for construction purposes, payable in semiannual installments ranging from \$13,000 to \$36,000, excluding interest at 7.0%, through July 1, 2021 (Water and Waste Disposal Loans and Grants)	452,000
\$410,000, Series 1999, for construction purposes, payable in annual installments ranging from \$11,000 to \$29,000, excluding interests at 4.50%, through January 1, 2024 (Water and Waste Disposal Loans and Grants)	399,000
\$1,160,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$80,000 to \$155,000, excluding interests at 7.08%, through July 1, 2009.....	<u>790,000</u>
Total General Obligations Bonds	<u>1,876,000</u>

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
Special Obligations Notes:	
\$3,455,000, Series 2001, for operational purposes, payable in semiannual installments ranging from \$45,000 to \$299,000, excluding variable interests from 5.0% to 7.5%, through July 1, 2026.....	\$3,355,000
\$985,000, Series 2001, for operational purposes, payable in semiannual installments ranging from \$170,000 to \$230,000, excluding variable interests from 5.0% to 7.5%, through July 1, 2006.....	635,000
\$505,000, Series 1993, for operational purposes, payable in semiannual installments ranging from \$20,000 to \$65,000, excluding variable interests from 4.375% to 8.00%, through July 1, 2009.....	285,000
\$1,510,000, Series 2001, for operational purposes, payable in semiannual installments ranging from \$20,000 to \$65,000, excluding variable interests from 4.375% to 8.0%, through July 1, 2009.....	575,000
Total Special Obligations Notes.....	4,850,000
Total General and Special Obligations.....	\$6,726,000

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

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2004	\$ 734,000	\$ 339,995	\$ 1,073,995
2005	795,000	381,224	1,176,224
2006	531,000	347,793	878,793
2007	322,000	320,452	642,452
2008	344,000	299,098	643,098
2009-2014	986,000	1,219,675	2,205,675
2015-2019	942,000	937,155	1,879,155
2020-2024	1,233,000	573,630	1,806,630
2024-2026	839,000	125,805	964,805
TOTAL	\$ 6,726,000	\$ 4,544,827	\$11,270,827

B. OTHER LONG-TERM DEBTS

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

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003
Property Taxes – MRCC.....	\$ 203,767	\$ -	\$ 203,767	\$ -
State Health Insurance Plan.....	989,083	-	989,083	-
Landfill.....	3,840,000	160,000	-	4,000,000
Compensated Absences.....	1,466,702	251,743	-	1,718,445
TOTAL	\$6,499,552	\$ 411,743	\$1,192,850	\$5,718,445

C. CHANGES IN GENERAL LONG-TERM DEBTS

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

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 1,868,000	\$ 410,000	\$ 402,000	\$1,876,000	\$ 164,000	\$ 1,712,000
Special.....	5,380,000	-	530,000	4,850,000	570,000	4,280,000
Others Debts...	6,499,552	411,743	1,192,850	5,718,445	1,718,445	4,000,000
TOTAL	\$13,747,552	\$ 821,743	\$ 2,124,850	\$12,444,445	\$ 2,452,445	\$ 9,992,000

NOTE 8 DEBT RETIREMENT

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

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

NOTE 9 PROPERTY TAXES

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

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

The tax rate per annum is 7.53% for real property and 5.83% for personal property of which 1.03% of both belong 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 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 PROPERTY TAXES (continuation)

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

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

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

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2003, the Debt Service Fund presented a receivable of \$27,962 for the collection of additional property taxes during the next 60 days after end of year.

NOTE 10 VOLUME OF BUSINESS TAX

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

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations 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 11 INTERGOVERNMENTAL REVENUES

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

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

NOTE 12 EMPLOYEE'S RETIREMENT PLAN

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

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

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

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

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

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

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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

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

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

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

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

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

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

Contributions in 2003 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared.

Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately \$304,062. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

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

NOTE 13 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS

State and Federal laws and regulations require the Municipality to place a final cover on its landfill when closed and perform certain maintenance and monitoring function at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on futures closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts

waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs.

The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$4,000,00 as of June 30, 2003, which is based on 83% usage of the landfill. It is estimated that an additional \$800,000 will be recognized as closure and post-closure care expenditures between the date of the balance sheet and the date the landfill is expected to be filled to capacity (December 2008). The estimated total current costs of the landfill closure and post-closure care (\$4,800,000) is based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2003. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. As of June 30, 2003 the Municipality has not made contributions to finance closure and post-closure care costs.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims

B. FEDERAL GRANTS

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

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

NOTE 15 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

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

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

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

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

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

Table 13 reconciles the June 30, 2002 Fund Balance, as previously reported to Beginning Fund Balance as restated, July 1, 2002.

	FUND BALANCE RESTATED				Table 13
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECT	DEBT SERVICE	NONMAJOR FUND
Fund Balance (Deficit), as Reported June 30, 2002.....	(\$ 737,605)	\$4,200,997	\$ 781,022	\$2,207,31	\$ -
Reclassify Fund Balance	4,397,747	(4,200,997)	(781,022)	-	584,272
Adjustment to Expenditures for Change in Accounting Principles	-	-	-	977,83	-
Other Adjustment.....	6,810	-	-	-	-
Beginning Fund Balances, as Restated, July 1, 2002.....	<u>\$3,666,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,230,748</u>	<u>\$ 584,272</u>

NOTE 16 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

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

END OF NOTES

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
BUDGETARY FUND BALANCE, JULY 1, 2003	\$ 3,666,952	\$ 3,666,952	\$ 3,666,952	\$ -
RESOURCES (INFLOWS):				
Property Taxes	6,316,608	6,754,480	6,754,480	-
Municipal License Taxes	1,550,000	1,879,716	1,888,947	9,231
License and Permits	200,100	420,075	523,129	103,054
Rent	74,100	63,475	82,354	18,879
Charge for Services	13,500	16,030	32,214	16,184
Intergovernmental Revenues:				
State Contributions	1,432,611	1,427,044	1,551,465	124,421
Interests	25,400	60,049	44,157	(15,892)
Miscellaneous	<u>384,504</u>	<u>515,448</u>	<u>432,144</u>	<u>(83,304)</u>
Total Resources (Inflows).....	<u>9,996,823</u>	<u>11,136,317</u>	<u>11,308,890</u>	<u>172,573</u>
Amounts Available for Appropriation.....	<u>13,663,775</u>	<u>14,803,269</u>	<u>14,975,842</u>	<u>172,573</u>
Charges to Appropriations (Outflows):				
General Government	4,810,681	5,725,624	5,059,474	666,150
Public Safety	952,234	952,234	766,507	185,727
Public Works	1,985,968	2,023,568	1,989,647	33,921
Culture and Recreation.....	476,824	508,174	478,851	29,323
Health and Welfare.....	1,771,116	1,875,716	1,612,939	262,777
Debt Services:				
Principal	-	36,275	36,275	-
Interest.....	-	<u>14,726</u>	<u>14,726</u>	-
Total Charges to Appropriations.....	<u>9,996,823</u>	<u>11,136,317</u>	<u>9,958,419</u>	<u>1,177,898</u>
BUDGETARY FUND BALANCE, JUNE 30, 2003.....	<u>\$ 3,666,952</u>	<u>\$ 3,666,952</u>	<u>\$ 5,017,423</u>	<u>\$ 1,350,471</u>

See accompanying Notes to Required Supplementary Information.

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Sources/Inflows of Resources:

Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 26).....	\$14,975,842
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	(3,666,952)
Transfer from other funds is inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.....	<u>3,661,008</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 16)	<u>\$14,969,898</u>

Uses/Outflows of Resources:

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 26).....	\$ 9,958,419
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	288,223
Prior-Year Expenditures are not outflows of budgetary resources but are <i>expenditures</i> for financial reporting purposes.....	<u>4,063,954</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 16)	<u>\$14,310,596</u>

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

Budgetary Fund Balance, June 30, 2003 (See Page 26).....	\$ 5,017,423
Timing Differences:	
Restricted Fund Balance	(3,237,521)
Net Change in Encumbrance	(691,169)
Non-budgetary Items	<u>10,589</u>
Unrestricted Fund Balance, June 30, 2003 (See Page 14).....	<u>\$ 1,099,322</u>

END OF THIS SECTION

PART II

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Direct Programs:			
Water and Waste Disposal Loans and Grants.....	10.770		<u>\$ 388,089</u>
Pass-Through Department of Education:			
Indirect Programs:			
Child and Adult Care Food Program.....	10.558	N/AV	<u>30,410</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers Program	14.871	RQ066-VO	341,425
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>936,489</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,277,914</u>
U.S. Department of Justice:			
Local Law Enforcement Block Grant.....	16.592		<u>99,968</u>
U.S. Department of Transportation:			
Direct Program:			
State and Community Highway Safety	20.600		<u>113,657</u>
U.S. Health and Human Services:			
Pass Through Administration of Children and Families:			
Child Care and Development Block Grant.....	93.575		<u>178,641</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$2,088,679</u>

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

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Isabela, Puerto Rico**. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 LOAN OUTSTANDING

The **Municipality of Isabela, Puerto Rico** had the following outstanding balance at June 30, 2003 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 Long-Term Liabilities of the Statement of Net Assets.

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT OUTSTANDING
Water and Waste Disposal Loans and Grants	10.770	\$399,000
Water and Waste Disposal Loans and Grants	10.770	452,000

NOTE 6 MAJOR PROGRAMS

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

END OF NOTES



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

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

We have audited the basic financial statements of **Municipality of Isabela, Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2003, and have issued report thereon dated January 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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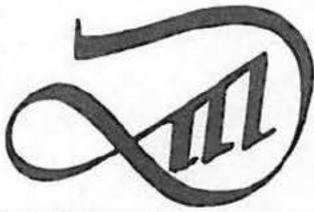
This report is intended solely for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is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



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Caguas, Puerto Rico
January 15, 2004





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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of 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 fiscal year ended June 30, 2003. The **Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 07.

Internal Control Over Compliance

The management of the **Municipality** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Page 2

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 and 03-III-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

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



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Caguas, Puerto Rico
January 15, 2004



PART III
FINDINGS AND QUESTIONED COSTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

- Reportable condition(s) identified? Yes None Reported
- Material weakness(es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Reportable condition(s) identified? Yes None Reported
- Material weakness (es) identified? Yes No

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

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

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

Yes No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.228	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

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-01
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, in sixteen (16) vouchers the invoices were not cancelled, and seven (7) 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	On January 29, 2004 Mr. Jason D. León, Finance Director, established strict procedures to ensure that the invoices and disbursements are processed, authorized, and cancelled according to government accounting rules and regulations.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-02
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 recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-03
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	Municipality did not properly document the reasonable rent test performed. Since December 1, 2003, the Housing Inspector implemented the Rent Reasonableness Form to improve the documentation of the procedures performed.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-04
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	Our utility allowance schedule was revised, updated, and implemented on July 1, 2003.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-05
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	Mr. Miguel Serrano was appointed as Housing Inspector effective December 1, 2003. We estimate that in approximately an eight month period the annual housing inspections, the rent reasonableness and the HQS will be revised and inspected for each unit.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-06
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 four (4) 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	To adhere to Housing Quality Enforcement Standards, we have implemented a form that will help us successfully achieve the programs goals.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-07
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	Pending the Corrective Action Plan.

END OF SCHEDULE

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

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2002

Finding Number	02-III-02	Cash Management – Excess of Cash
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.
Finding Number	02-III-04	Equipment and Real Property Management
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.
Finding Number	02-III-05	Procurement Standards – Missing clauses in the contracts.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.
Finding Number	02-III-06	Special Tests and Provisions Incomplete information on the waiting list.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.
Finding Number	02-III-12	Special Tests and Provisions Municipality did not provide us with an updated Administrative Plan.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.

continue

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

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

FISCAL YEAR 2001

Finding Number 01-III-01 **Procurement Standards and Davis Bacon Act**

CFDA Number 14.228

Questioned Cost None

Auditee Comments System and procedures corrected.

Finding Number 01-III-04 **Cash Management – Excess of Cash**

CFDA Number 14.228

Questioned Cost None

Auditee Comments System and procedures corrected.

Finding Number 01-III-05 **Procurement Standards and Davis Bacon Act**

CFDA Number 10.766

Questioned Cost None

Auditee Comments System and procedures corrected.

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2002

Finding Number 02-III-01 **Allowable Cost/Cost Principles – Missing documents on vouchers payments.**

CFDA Number 14.228

Questioned Cost None

Auditee Comments 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

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

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Finding Number	02-III-03	Eligibility – Missing documentation (HUD-approved release and consent forms).
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	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.	
 Finding Number	 02-III-07	 Special Tests and Provisions – Evidenced of the determination of the reasonable of the rent paid to the owners.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Federal Grants Office Director (FGOD) has been instructed and is in process to include documentation of the rent to be pay to owners in accordance to federal regulations by May 30, 2003.	
 Finding Number	 02-III-08	 Special Tests and Provisions – Evidenced of revision of the allowable utility schedule.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	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 document 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.	
 Finding Number	 02-III-09	 Special Tests and Provisions – Missing inspection reports.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	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

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

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Finding Number	02-III-10	Special Tests and Provisions Missing verification documenting that any PHA-required repairs were completed.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		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).
Finding Number	02-III-11	Special Tests and Provisions Municipality did not perform supervisory quality control HQS inspections.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		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.

(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 Day Year Fiscal Period End Dates Must 06 / 30 / 2003 Be On or After January 1, 2001		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit										
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - Months 2 <input type="checkbox"/> Biennial		4. Date received by Federal clearinghouse <div style="border: 1px solid black; padding: 2px; width: fit-content;">FEDERAL GOVERNMENT USE ONLY</div>										
5. Employer Identification Number (EIN) a. Auditee EIN <table border="1" style="display: inline-table; text-align: center; width: 100px;"> <tr><td>6</td><td>6</td><td>0</td><td>4</td><td>3</td><td>3</td><td>7</td><td>9</td><td>6</td></tr> </table>		6	6	0	4	3	3	7	9	6	b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)	
6	6	0	4	3	3	7	9	6				

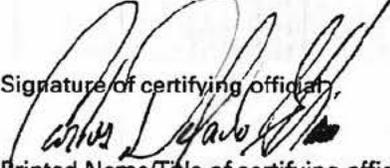
6. AUDITEE INFORMATION

a. Auditee name	
MUNICIPALITY OF ISABELA	
b. Auditee address (Number and street)	
APARTADO 507	
City	
ISABELA	
State	ZIP + 4 Code
PR	00662-
c. Auditee contact Name	
CARLOS DELGADO ALTIERI	
Title	
MAYOR	
d. Auditee contact telephone	
(787) 872 - 2100	
e. Auditee contact FAX (Optional)	
() -	
f. Auditee contact E-mail (Optional)	

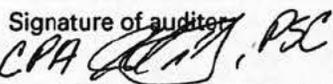
7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name	
CPA DIAZ-MARTINEZ, PSC	
b. Auditor address (Number and street)	
P.O. BOX 8369	
City	
CAGUAS	
State	ZIP + 4 Code
PR	00726-8369
c. Auditor contact Name	
JOSE E. DIAZ MARTINEZ	
Title	
PRESIDENT	
d. Auditor contact telephone	
(787) 746 - 0510	
e. Auditor contact FAX (Optional)	
(787) 746 - 0525	
f. Auditor contact E-mail (Optional)	
CPADIAZMARTINEZ@HOTMAIL.COM	

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

Signature of certifying official: 
 Date: 02 / 09 / 04
 Printed Name/Title of certifying official:
 CARLOS DELGADO ALTIERI, MAYOR

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

Signature of auditor: 
 Date: 02 / 06 / 04

PART I GENERAL INFORMATION - Continued

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

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

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

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)

- 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

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

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

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

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

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance

- 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)			Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²								
1	0	.770	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WATER AND WASTE DISPOSAL LOANS AND GRANTS	\$ 388,089 .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	\$ 30,410 .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 PROGRAM	\$ 341,425 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	EN	03-III-02,03-III-03,03-III-04,03-III-05,03-III-06,03-III-07
1	4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 936,489 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	B	03-III-01
1	6	.592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 99,968 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
2	0	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE AND COMMUNITY HIGHWAY SAFETY	\$ 113,657 .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
9	3	.575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 178,641 .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 →					\$ 2,088,679 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

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

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

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

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

⁴ N/A for NONE

PART I Item 5 Continuation Sheet

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

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

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