

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE NARANJITO

AUDITORIA 2002-2003

30 DE JUNIO DE 2003



CAMPOS & STRATIS
CERTIFIED PUBLIC ACCOUNTANTS

Cault # 4-0832

OFIC. DEL COMISIONADO
ASUNTOS MUNICIPALES

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MUNICIPALITY OF NARANJITO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2003

naranjito

**MUNICIPALITY OF NARANJITO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2003**

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**MUNICIPALITY OF NARANJITO
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**INDEPENDENT AUDITOR'S REPORT ON
GENERAL PURPOSE FINANCIAL STATEMENTS**

Honorable Mayor and Members of
The Municipal Council
Municipality of Naranjito
Naranjito, Puerto Rico

We have audited the accompanying general-purpose financial statement of the Municipality of Naranjito (the Municipality), as of and the year ended June 30, 2003 as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on this general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained Government Auditing Standard, issue by the Comptroller General of United State. Those standard require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statement referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Naranjito as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with Governmental Auditing Standards, we have also issue our report dated December 19, 2003 on our consideration of Municipality of Naranjito internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contract and grant.

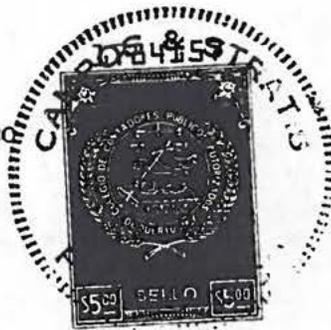
Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, Audits of States, Local Governments, and Non Profit Organization, and it not a required part of the general-purpose financial statements of Municipality of Naranjito. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and in our opinion, is fairly stated, in all material respect, in relation to the general-purpose financial statements taken whole.

This report is intended forth information of Municipality's management and the Office of the Commissioner of Municipal Affairs. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Municipality, is matter of public record.

Campos & Stratis
Campos & Stratis, CPA

January 27, 2004
San Juan, Puerto Rico

Lic # 164



The stamp no. 1784157 was affixed to the original report.

MUNICIPALITY OF NARANJITO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ALL ACCOUNTS GROUPS
 AS OF JUNE 30,2003

CAMPOS & STRATIS

ASSETS

	GOVERNMENT FUND TYPES			ACCOUNTS GROUP		TOTAL MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	GENERAL DEBT SERVICE	GENERAL	GENERAL	
				FIXED ASSETS	LONG - TERM DEBT	
Cash:						
Cash, including \$ 4,000,216 in certificate of deposit	\$2,707,745	\$3,412,475				\$6,120,220
Cash with fiscal agent			\$789,388			789,388
Receivable:						
Due from other governmental entities	468,624	683,854				1,152,478
Patent receivable	126,571					126,571
Excise tax receivable	79,000					79,000
Due from others fund	529,886	892,872				1,422,758
Property and equipment:				\$11,070,400		11,070,400
Other assets:						
Amount to be provided for payment of:						
Compensating absences					\$1,071,883	1,071,883
Retirement of property tax advance					7,819	7,819
Bonds and notes payable					537,612	537,612
Amount available in debt service fund					789,388	789,388
Total Assets	\$3,911,826	\$4,989,201	\$789,388	\$11,070,400	\$2,406,702	23,167,517

LIABILITIES AND FUNDEQUITY

Liabilities:						
Account payable and accrued expenses	841,906	61,293				903,199
Due to other governmental entities	514,352					514,352
Due to others fund	892,872	529,886				1,422,758
Deferred revenue	472,942	1,298,103				1,771,045
Bond and notes payable					1,327,000	1,327,000
Compensating absence					1,071,883	1,071,883
Property tax advance					7,819	7,819
Total liabilities	2,722,072	1,889,282	-	-	2,406,702	7,018,056
Fund equity:						
Investment in general fixed assets				11,070,400		11,070,400
Fund balances:						
Reserved for debt service			789,388			789,388
Unreserved:						
Designated for specific fund purposes		3,099,919				3,099,919
Undesignated	1,189,754					1,189,754
Fund equity	1,189,754	3,099,919	789,388	11,070,400	-	16,149,461
Total liabilities and fund equity	\$3,911,826	\$4,989,201	\$789,388	\$11,070,400	\$2,406,702	\$23,167,517

See auditors' report and accompanying notes to financial statement

MUNICIPALITY OF NARANJITO
 COMBINED STATEMENT OF REVENUE AND EXPENDITURES **CAMPOS & STRATIS**
 AND CHANGES IN FUND EQUITY - ALL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	TOTAL MEMORANDUM
REVENUE:				
Property tax	\$ 968,346		\$ 223,669	\$ 1,192,015
Intragovernmental	6,295,808			6,295,808
Grants and contributions		\$ 5,658,069		5,658,069
Volume of business tax	982,757			982,757
Excise tax	765,824			765,824
Rent	16,380			16,380
Interest	87,870		7,472	95,342
Miscellaneous	456,455			456,455
Total Revenues	9,573,441	5,658,069	231,141	15,462,651
EXPENDITURES:				
General governmental	4,406,899	539,983		4,946,882
Public works and sanitation	2,683,207	1,133,255		3,816,462
Public safety	158,336	105,232		263,568
Capital outlay		1,269,672		1,269,672
Education and recreation	402,267	110,744		513,011
Health and welfare	546,762	785,833		1,332,595
Debt service:				-
Principal retirement			265,960	265,960
Interest charges			7,584	7,584
Total Expenditures	8,197,471	3,944,719	273,544	12,415,734
Excess (deficiency) revenues over expenditures	1,375,969	1,713,350	(42,403)	3,046,916
Other financing sources (uses):				
Operating transfer in		267,646		267,646
Operating transfer out	(267,646)			(267,646)
	(267,646)	267,646	-	-
Excess of revenue and other financing sources over expenditures and other financing uses	1,108,323	1,980,996	(42,403)	3,046,916
Fund equity at beginig of year	81,431	1,118,923	831,791	2,032,145
Fund equity at ending of year	\$ 1,189,754	\$ 3,099,919	\$ 789,388	\$ 5,079,061

See auditors' report and accompanying notes to financial statement

MUNICIPALITY OF NARANJITO
 STATEMEN OF REVENUE AND EXPENDITURES BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2003

REVENUE:	GENERAL FUND			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
PROPERTY TAX	\$ 938,365	\$ 968,346	\$ 29,981	\$ 205,841	\$ 231,141	\$ 25,300
INTRAGOVERNMENTAL	5,136,653	6,295,808	1,159,156			-
VOLUME OF BUSINES TAX	895,315	982,757	87,442			-
EXCISE TAX	681,206	765,824	84,618			-
RENT	15,000	16,380	1,380			-
INTEREST	75,000	87,870	12,870			-
MISCELLANEOUS	888,899	456,455	(432,444)			-
TOTAL REVENUE	8,630,438	9,573,441	943,003	205,841	231,141	25,300
EXPENDITURE:						
MUNICIPAL COUNCIL	112,465	98,342	14,123			-
MAYOR OFFICE	1,110,202	1,094,020	16,182			-
FINANCE	2,309,987	2,189,959	120,029			-
PUBLIC WORK	1,671,895	1,640,843	31,051			-
HEALTH	357,211	357,211	0			-
CIVIL DEFENSE	99,951	89,718	10,233			-
MUNICIPAL POLICE	82,786	68,618	14,168			-
PERSONNEL	1,207,563	1,135,211	72,352			-
SPORT AND RECREATION	335,813	313,542	22,271			-
SANITATION	1,025,763	1,005,055	20,708			-
ERDELY CENTER	200,714	189,552	11,163			-
INTERNAL AUDIT	19,978	7,864	12,114			-
EMBELLECIMIENTO Y ORNATO	96,110	88,725	7,385			-
DEBT SERVICE FUND				205,841	273,544	(67,703)
TOTAL EXPENDITURE	8,630,438	8,278,659	351,779	205,841	273,544	(67,703)
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	\$ -	\$ 1,294,782	\$ 591,225	\$ -	\$ (42,403)	\$ 93,003

See auditors' report and accompanying notes to financial statement

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting entity:

The Municipality of Naranjito is a political and juridical entity organized under laws of the Commonwealth of Puerto Rico.

The Municipality operations include among other, health and welfare, public works, public safety, recreation, community development, welfare and general administrative services.

In evaluating how to define the Municipality, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic but not the only criterion for including a potential component unit within the report entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to exercise significant influence operations and accountability for fiscal matters. The other criterion use to evaluate potential component unit for inclusion or exclusion from the reporting entity is the existence of special financing relationship, regardless of whether the Municipality is able to exercise oversight responsibilities.

The financial statements presented herein do not include agencies which have been formed under applicable laws separate and distant units of government apart from the Municipality of Naranjito.

B. Method of presentation:

Fund Accounting:

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Method of presentation (continued):

Fund Accounting (continued):

entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Government resources are allocated to an accounted for in individual fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped, in the financial statements in the report, into three generic fund types and other fund category as follows:

Governmental fund types:

General Funds

The general funds are the general operating fund of the Municipality. Its is used to account for all financial resources except those required to be accounted for another fund.

Special Revenue Funds

Special revenue fund are established to account for proceeds of specific revenue sources that are legally restricted to expenditure for specific purpose.

Debt Service Funds

Debt service fund are established to accumulate resources for the payment of principal, interest and related costs of general long term debt obligation.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Method of presentation (continued):

Account Groups

Account group are used to establish accounting control and accountability for the Municipality's general fixed assets and general long term debt obligations. The following are the Municipality's account groups:

General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality general fixed assets are recorded as expenditure in the Governmental Fund an are capitalized at cost in the General Fixed Group of Accounts. Donated general fixed assets are recorded at fair market value of the assets at the time it was donated. Depreciation is not recorded in the general fixed assets account group.

General Long Term Debt Account Group

This group of accounts is established to account for all long term debts of the municipality.

C. Budgetary Control:

The major submits and the Municipal Assembly approved an annual budget for each fiscal year beginning July 1st. Appropriation in the Municipality budget consist of the following:

General Fund Appropriations for recurrent and ordinary functions of the Municipality.

Appropriation of Special Fund for specific purposes and the capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorization because they are continuing appropriations.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Basis of accounting:

Governmental revenues and expenditure are recognized using the modified accrual basis. Under this method, revenue are recognized in the accounting period in which they become both measurable and available to be use to pay recorded liabilities. Expenditure are recognized in the accounting period in which the final liability is incurred, is measurable, except for unmeasured interest on general long term debt, which is recognized when due.

To accrue the intergovernmental revenue, the legal and contractual requirements of individual programs are use as guide. Essentially, there are two types of these revenue. The first one require that financial resources be spent in the specific projects and purposes before the revenue be recognized based on the recorded expenditure and submitted to the granting agencies for reimbursements. In the second types of intergovernmental revenue, the financial resources are unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements.

License, fees, permits, fines and other revenue are recognized when received.

Interest income is recorded when earned.

E. Encumbrances:

Accounting for encumbrances, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end, if any, do not constitute expenditure or liabilities and therefore, are presented in the financial statements as a reservation of fund balance.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Total Column(memorandum only):

The amount presented under this column represent the aggregate amount of the different types of fund and account groups. The total of this column was not obtained from eliminations or consolidations, accordingly, they do not present consolidate information.

G. Property and Equipment:

Property and equipment used in governmental fund type operation are recorded as expenditure of various governmental funds and capitalized at cost or, if donated, at the estimated fair market value at time of contribution in the general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Depreciation is not provided on general fixed assets. Certain improvements constructed, such as roads, street, gutter, curb, sidewalks, drainage and bridges are not capitalized.

H. Uses of Estimates:

The preparation of financial statement in conformity with generally accepted accounting principles require management to makes estimates and assumptions that effect certain amounts and disclosures accordingly; accrual result could differ from those estimates.

2. CASH

- A. To facilitate better management of the Municipality's resources, substantially, all cash is combined in pooled operating accounts. The amounts reflected as cash in the balance sheet represent the individual's funds equity in pooled cash balance. Cash is deposited in interest bearing check accounts.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

2. CASH (CONTINUED)

B. The Municipality is required to deposit on institutions authorized by the Department of the treasury of the Commonwealth of Puerto Rico to be a depository of public funds. The authorized depository institutions are required to maintain federal insurance and provide adequate collateral to the Department of the Treasury, who maintains it on custody.

C. Cash withheld by fiscal agents:

The Municipality levies annual special tax of 1.03% of the assessed value of all real and personal property. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property tax are collected and retained by the Municipal Income Collection Center "CRIM" and deposited in an account with Governmental Development Bank of Puerto Rico (GB) as agent for the Municipality. At June 30, 2003, cash retained by "CRIM" amounted to \$789,388.

3. VOLUME OF BUSINESS TAX:

The volume of business tax is determined based on the gross income of all commerce and industrial organizations doing business in the Municipality of Naranjito that are not specifically exempt by law. An annual return of business volume should be filed on April 15 of each year and payable in two equal installments due on July 1st. The tax rates are the following:

Financial institution = 1.50%
Other organizations = .50%

The collections in advance of patents of the next year or fiscal period are recorded as deferred revenue in the General Fund. The Municipality invoiced and collected in advance during the current year \$472,942 corresponding to the next fiscal year municipal license.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

4. GRANTS AND CONTRIBUTIONS:

Grants and contributions revenue consists of concessions and subsidies received from Government of Puerto Rico and contributions received from certain quasi-public corporations of Government of Puerto Rico such as Electric Power Authority, and from certain federal agencies, such as U.S. Department of Housing and Urban Development.

Concessions and subsidies received from Government of Puerto Rico include among others, a general subsidy for general operations and for financing of capital improvements.

Contributions received are in lieu of tax payments from quasi-public corporations. Grant and contributions revenues are recorded in the General Fund, except those legally restricted to expenditures for specific purposes, which are recorded in the Special Revenue Fund.

5. PROPERTY, AND EQUIPMENT:

A summary of changes in property and equipment is as following:

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Land, Building and improvements	\$5,319,837	776,696		\$6,096,533
Furniture, fixture, machinery and equipment	2,358,760	76,020	2,320	2,432,119
Vehicles	<u>2,140,979</u>	<u>431,172</u>	<u>30,744</u>	<u>2,541,407</u>
	<u>\$9,819,576</u>	<u>\$1,283,888</u>	<u>\$33,064</u>	<u>\$11,070,400</u>

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

6. GENERAL LONG TERM - TERM DEBTS:

General obligations at June 30, 2003 are comprised of the following:

Notes and bonds payable:

1984 - \$143,000 public improvement bond, due in annual principal installments ranging from \$7,000 to \$10,000 through January 1, 2007, plus interest at 5%.	\$ 36,000
1995 - \$400,000 lottery special fund note, due in annual principal installments ranging from \$15,000 to \$40,000 through July 1, 2016, plus interest at 8%.	330,000
1998 - \$275,000 general obligation bond, due in annual principal installments ranging from \$13,000 to \$21,000 through January 1, 2015, plus interest at 4.5%.	223,000
1998 - \$250,000 general obligation note, due in annual principal installments ranging from \$30,000 to \$45,000 through July 1, 2005, plus interest at 8%.	125,000
2001 - \$235,000 general obligations note, due in annual principal installments ranging from \$40,000 to \$55,000 through July 1, 2004, plus interest at 12%.	105,000
2001 - \$56,000 general obligation bond, due in annual principal installments ranging from \$1,000 to \$3,000 through July 1, 2024, plus interest at 4.5%.	53,000
2001 - \$38,000 general obligation bond, due in annual principal installments ranging from \$1,000 to \$3,000 through July 1, 2025, plus interest at 4.5%.	35,000
2002 - \$475,000 general obligations bond, due in annual principal installments ranging from \$55,000 to \$70,000 through July 1, 2010, plus interest at 4.5%.	<u>420,000</u>
	<u>\$1,327,000</u>

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

6. GENERAL LONG TERM - TERM DEBTS (CONTINUED):

Property tax advances:

Due to Treasury Department, fiscal years preceding
1999, payable in monthly installments of \$76 through 2010. \$ 7,819

The following is a summary of general obligation transactions for year ended June 30, 2003.

	PROPERTY TAX ADVANCES	NOTES AND BOND PAYABLE
Balance July 1, 2002	\$ 8,740	\$1,546,000
Proceed from loans		
Principal payment	<u>(921)</u>	<u>(219,000)</u>
Balance June 30, 2003	<u>\$ 7,819</u>	<u>\$1,327,000</u>

Proceeds of general obligations are recorded in Special Revenue Funds and are restricted to the use for which they are approved.

The maturity of general obligations is as follows:

YEAR ENDING JUNE 30,	PROPERTY TAX ADVANCES	NOTES AND BOND PAYABLE
2004	\$ 921	\$ 190,000
2005	921	201,000
2006	921	152,000
2007	921	118,000
2008	921	113,000
Thereafter	<u>4,214</u>	<u>553,000</u>
Balance June 30, 2003	<u>\$ 7,819</u>	<u>\$1,327,000</u>

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

7. COMPENSATED ABSENCES:

Employees are entitled to 30 days vacations leave and 18 days sick-leave per year. The regular vacations can be accumulated maximum 60 days at the end of a calendar year and for sick up to 90 days. Vacations are recorded as expenditure in the year paid. Employees are entitled to payment of unused sick-leave upon retirement.

8. DUE FROM/TO OTHER GOVERNMENTAL ENTITIES:

	<u>GENERAL FUND</u>
Due from:	
Puerto Rico Electrical Power Authority	\$ 468,624

9. PROPERTY TAXES:

The Municipal Income Collection Center is responsible for the appraisal of all real personal property located in the Municipality and for the imposition, administration and collection of the respective taxes.

Property taxes are levied annually over the property-assessed value at beginning of the calendar year, which amount to 5.37% of the personal property and 7.37% of the real property value. The real property appraisal value of 1957 and the personal property in the current value at the appraisal time. The Municipality grants retailers with a volume of business have less than \$150,000 movable property tax exceptions up to \$50,000 of the assessed value of property. Also, property tax law grants, under certain circumstances, a tax exemption (exonerated) for the first \$15,000 of the assessment made to properties occupied by the owner. Nevertheless, the Department of Treasury pays the Municipality the basic tax related to those \$15,000, except for properties that have an assessed value of less than \$3,500, which have full exemptions.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

9. PROPERTY TAXES(CONTINUED):

The total tax levied included an additional special property tax (1.03%). The basic property tax is used for general purposes and is accounted in the General Fund. The additional special property tax is retained by CRIM (cash with fiscal agent) and is used and designated for debt services and accounted in the Debt Service Fund.

The CRIM charges to the Municipality for administration expenses related to the imposition and collection of property tax. For the year ended June 30, 2003, CRIM charged \$38,009 for these services.

The CRIM notifies annually to the Municipality the estimated basic additional property taxes that they expect to collect in the next fiscal year. The Municipality though advances from the CRIM receives the basic property tax. When the CRIM collects the contributions from the taxpayers, this collection is applied against the respective advances.

The additional special property tax is recorded as revenue in the Debt Service Fund, when it is collected and notified by the CRIM.

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable and if the same is collectible within the 60 days period after the balance sheet date as required by the generally accepted accounting principles applicable to governmental entities. The records of such receivable are kept and maintained by the CRIM.

10. EMPLOYEE'S RETIREMENT PLAN:

The Municipality is a member of Puerto Rico Retirement System for State Employees, which cover all eligible full-time employees. Total pension expenses amounted to \$242,228 for the year ended June 30, 2003. The Municipality provided to the fund 8.275% of the gross salaries of the participating employees. The participants provide 8.275% of their gross salaries or 5.77% for the first \$600 and 8.275% of the excess if selected by the participants entered in the plan before April 30, 1990. If participant entered in the plan after such date it is required to provide the 8.275% of his salary.

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

11. FUND EQUITY:

Reserve for encumbrances:

This amount, if any, represents encumbrances outstanding at the end of the year based on contracts signed by Municipality, but not completed as the end of the fiscal year.

Designated for debt service:

In accordance with legal restriction, these amounts are reserved for payments of principal and interest of general long term debt maturing an later years. The resources for this reserve arise from the additional special contribution of property taxes.

12. BUGETARY COMARISONS:

As describe in Note 1, the statement of revenue and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles.

The principal differences between budgetary basis and generally accepted accounting principles, are as follows:

A The encumbrances are recorded as expenditures in the budgetary basis instead as a reserve of the fund balance. However, encumbrances outstanding at year ended, if any, are not material.

B Transfers in and out are recorded as revenue or expense instead as other financing sources.

Adjustments necessary to reconcile the revenue and expenditures at the end of fiscal year from generally accepted accounting principles to budgetary basis, are as follows:

**MUNICIPALITY OF NARANJITO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

12. BUDGERARY COMPARISONS (CONTINUED):

	General Fund		Debt Service Fund	
	Revenue	Expenditures	Revenue	Expenditures
General Fund:				
General accepted accounting Principles basis	\$9,573,441	\$8,197,471	\$205,841	\$231,141
Transfer in/out and accounts payable recorded as revenue/ expenses on the budgetary basis		81,188		
Budgetary basis	\$9,573,441	\$8,278,659	\$205,841	\$273,544

The budget amounts shown in the financial statement are the final authorized amounts as revised during the year.

13. COMMITMENTS:

During June 30, 2003 the Municipality of Naranjito has entered in operating lease with the Landfill Technologies of Toa Alta to collect the waste of the Municipality and for the use of the municipal solid waste landfill of Toa Alta. Amount vary from month to month base on total waste collected.

14. CONTINGENCIES:

A Litigation:

The Municipality is defendant an/or co-defendant in various pending claims and lawsuits. Some of these cases are covered by the insurance policies. The Municipality's management, after consultation with legal counselor, is of the opinion that the ultimate liability is \$76,000 payable to Coop. Agrocomercial de PR. The Municipality also has a receivable of \$21,000 and \$79,000 of patent and excise tax from Precision Air & Contractor and Del Valle Group; Rio Construction, Corp. respectively.

B Federal grants:

In the normal course of operations, the Municipality of Naranjito receives grant funds from various US Federal Agencies. The grant programs on subject to review and audit by agents of granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting og funds. Although, such audits could generate expenditures disallowance under terms of the grants, its is believed that any required reimbursement would not be material.

MUNICIPALITY OF NARANJITO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

**MUNICIPALITY OF NARANJITO
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFA NUMBER</u>		<u>EXPENDITURES</u>
<u>US Department of Housing and Urban Development</u>			
Passed through the Puerto Rico Office of the Commissioner of Municipal Affairs State Block Grant Program			
Small Cities Program-	14.219	→	\$ 300,959
Direct Program:			
Section 8 – Lower Income Housing Assistance Payment Program	14.856	→	<u>535,339</u>
Total US Department of HUD			<u>836,298</u>
<u>US Department of Health and Human Service (HHS):</u>			
Passed through Office of Governor Special Program of aging:			
CE Title III, Part B – Grant for Supportive	93.044		100,062
Community Service Block Grant (CSBG)	93.045		9,645
Child Care	93.575		<u>88,466</u>
			<u>198,173</u>
<u>Federal Emergency Management Agency</u>			
Direct program:			
Disaster Assistance	83.516		<u>57,303</u>
<u>US Department of Agriculture</u>			
Direct program:			
Nutrition Assistance of Puerto Rico	10.566		<u>18,230</u>
<u>US Department of Justice</u>			
Public Safety Partnership and Community Policing Grant (COPS)			
	16.710		<u>98,707</u>
Total of Federal Awards			<u>\$1,208,711</u>
→ Mayor program			

**MUNICIPALITY OF NARANJITO
NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 - GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activities of all federal financial assistance programs of the Municipality of Naranjito, Puerto Rico. The Municipality reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. All federal financial assistance passed through other governmental agencies, are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting, which is described in Note 1 of the Municipality's general purpose financial statements.

NOTE 3 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Revenue and expenditures of the Federal Financial Assistance Programs are included in the Municipality's general purpose financial statements within the Special Revenue Fund. The reconciliation between the expenditures in general purpose financial statements and expenditures in the Schedule of Federal Financial Assistance is as follows:

Expenditures in the general-purpose financial statements:

Special Revenue Fund	\$2,675,047
Capital Outlay	<u>1,269,672</u>
	\$3,944,719
Less non-federal expenditures	<u>(2,736,008)</u>
Expenditures in the Schedule of Federal Financial Assistance	<u>\$1,208,711</u>

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

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

Hon. Mayor and Members of
the Municipal Assembly
Municipality of Naranjito
Naranjito, Puerto Rico

We have audited the general-purpose financial statement of Municipality of Naranjito as of and for the year ended June 30, 2003 and have issued our report there on dated December 19, 2003. 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 Municipality of Naranjito general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of finding and questioned costs as items Section II-I Accounting Records and Report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Naranjito internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted

certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect Municipality of Naranjito's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statement. Reportable conditions are described in accompanying schedule of findings and questioned cost as items Section II-I Accounting Systems and Reports.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matter in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions described above is a material weakness.

This report is intended for the information of the management of Municipality of Naranjito, and Naranjito Municipal Assembly. However, this report is a matter of public record and its distribution is not limited.

Campos & Stratis
CAMPOS & STRATIS

January 27, 2004
San Juan, Puerto Rico
Licence No. 164



Stamp No. 1784158 was affixed to the original of this report.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND 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**

**Honorable Major and Members
of the Municipal Assembly
Municipality of Naranjito
Naranjito, Puerto Rico**

Compliance:

We have audited the compliance of Municipality of Naranjito, with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A – 133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Municipality of Naranjito major federal programs are identified in the summary of auditor's results section of the accompanying schedule and questioned costs. Compliance with the requirements of laws regulations, contract and grants applicable to each of this major federal programs is responsibility of Municipality of Naranjito management. Our responsibility is to express an opinion on the Municipality of Naranjito compliance based on our audit.

We conducted our audit in accordance with auditing standard 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 United States; OMB Circular A – 133, Audits of States and Local Governments, and Non Profit Organizations. Those standards and OMB Circular A – 133 require that we plan and perform the audit obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes, examining, on a test basis, evidence about Municipality of Naranjito compliance with those requirements and performing such other procedures as we consider necessary in the circuntance. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Naranjito compliance with those requirements.

In our opinion, Municipality of Naranjito complied, in all material respect, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

Campos & Stratis
CAMPOS & STRATIS

January 27, 2004
San Juan, Puerto Rico
License No. 164



Stamp No. 1784159 was affixed to the original report.

MUNICIPALITY OF NARANJITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

MUNICIPALITY OF NARANJITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

SECTION I - SUMMARY OF AUDITOR'S RESULTS
Financial Statements

Type of auditor's report issued

Qualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Reportable condition(s) identified that are not considered to be material weaknesses?

Yes No

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major program:

- Reportable condition(s) identified that are not considered to be material weakness(es)

Yes None reported

Type of auditor's report issued on compliance for major programs unqualified.

Any audit findings 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(s)

Name of Federal Program Cluster

14.219
14.856

State Block Grant Program
Section 8

Dollar threshold used to distinguish Between type A and type B programs:

\$300,000

Audited qualified as low-risk audited?

Yes No

**MUNICIPALITY OF NARANJITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

SECTION II – FINACIAL STATEMENTS FINDINGS

The Municipality of Naranjito has been subject to various audits and program monitoring compliance over the past years. Most of the audit finding for the year ended June 30, 2003 are repetitive in nature because in most instance corrective action are in process and are included below for follow-up purpose.

ACCOUNTING RECORDS AND REPORTS:

Our study and evaluation of the Municipality's accounting records and related internal control procedure disclosed the following:

- A- As part of the responsibilities of the office of the Commissioner of Municipal Affairs an uniform accounting system was installed in the Municipality. At present, transaction are accounted through manual and computerized accounting system. However, differences in balance were noted in both systems and no reconciliation was performed. Moreover, the Municipal did not comply with Law No. 81 of 1991, ("Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico"). This law provides for constitution, organization, administration and operation of the Municipalities' government. Also, it provides for the modernization of the systems and procedures in order to establish efficient accounting control and operating procedures.

- B- The accounting records kept by the Municipality cannot perform the following information:
 - 1. Provide for a balance separate self balancing accounts group that compose its assets, liabilities, fund equity, revenue and expenditures as required by GAAP.
 - 2. provide for a proper segregation between encumbrances and accounts payable.
 - 3. The Municipality is not utilizing properly the subsidiary ledger provide for a subsidiary ledger of general long term debt.

We believe the Municipality shall assign this responsibility to special task force composed of personnel from different divisions of the Municipality to have this system working at full capacity shortly. The benefits to be derived will exceed the extra effort needed.

**MUNICIPALITY OF NARANJITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

SECTION II - FINACIAL STATEMENTS FINDINGS

ACCOUNTING RECORDS AND REPORTS (CONTUNUED):

As part of this process, a comprehensive plan should be established to evaluate the operations of the system as well as to establish the necessary input and output control system.

- C- During our examination of the Municipality's property records we noted the following:
1. No system has been established to gather all capitalizable cost of construction progress.
 2. Not all property is identified by prenumbered labels to indicate the Municipality's ownership.
 3. Acquisition of property is not included in the property an equipment ledger.

An accounting system must make it possible to:

- A Present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and
- B Determine and demonstrate compliance with finance, legal and contractual provisions.

In order to streamline the accounting and reporting system and provide proper closing of records and adequate and timely information, we recommend that the Municipality's system be modified through the implementation of the appropriate accounting records and procedures.

**MUNICIPALITY OF NARANJITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

SECTION 8

Finding:

Under the program Section 8 of the US Department of Housing and Urban Development (HUD) the monthly payments made to landlord for rent and participants for negative rent and utilities were made after day 5 of each month. As per regulation of HUD these payments should be made before day 5 of each month.

Questioned Cost:

None.

Finding:

The municipality do not provide for a private office space for interview with tenants. All interviews were made in an open office space. Under HUD regulation the municipality should provide a private office for interview with tenants.

Questioned Cost:

None.

**MUNICIPALITY OF NARANJITO
STATUS OF PRIOR YEAR UNCORRECTED
AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

**MUNICIPALITY OF NARANJITO
STATUS OF PRIOR YEARS UNCORRECTED AUDITS FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

The Municipality of Naranjito, has been subjected to various audits and program monitoring compliance over past years. Following is a summary of audit findings for which final determination and/or corrective action are in process. Most of these findings still prevail for the year ended June 30, 2003. This summary includes a brief description of the findings and their status. Repeat findings from the audit report for the year ended June 30, 2002, are included as current year findings for the current year audit report. Therefore, findings included in the audit report for the year ended June 30, 2003, encompass unresolved findings mentioned in the audit report for the fiscal year ended June 30, 2002, dated December 19, 2002.

**MUNICIPALITY OF NARANJITO
SCHEDULE OF PRIOR YEARS UNCORRECTED FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

AUDIT REPORT	QUESTIONED COST	ACTUAL STATUS
SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30,2002		
Accounting Records and Reports:		
1. Differences in balance in manual and computerized accounting reports without any reconciliation been made in both systems.	\$ - 0 -	Conditions continues see current year findings.
2. The accounting records kept by the Municipality can not prefer the Following forms:		
a. provide for a self-balancing group accounts that compose its assets, liabilities fund balances, revenue and expenditures.	\$ - 0 -	Conditions continues see current year findings.
b. Provide proper segregation between encumbrances and account payable	\$ - 0 -	Conditions continues see current year findings.
c. Provide for a subsidiary of Long Term Debt.	\$ - 0 -	Conditions continues see current year findings.
3. During our examination of the Municipality's property records we noted the following:		
a. No system has been established to gather all capitalizable costs of construction in progress.		Conditions continues see current year findings.
b. Not all property is identified by renumbered labels to indicate the Municipality's ownership.		Conditions continues see current year findings.

MUNICIPALITY OF NARANJITO
EXHIBIT I
MANAGEMENT RESPONSE TO FINDINGS
JUNE 30, 2003



Estado Libre Asociado De Puerto Rico
Gobierno Municipal
Apartado Postal 53, Naranjito, P.R. 00719

Departamento de Finanzas

January 9, 2004

**CORRECTIVE ACTIONS
AUDIT REPORT 2002-2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

ACCOUNTING RECORDS AND REPORT

The Finance Director will coordinate with the Municipality Affairs Commissioner's Office (OCAM) the following corrections to the accounting record:

- Will made all necessary adjustment to correct the system and reconcile with the manual accounting. This correction action is now in process.
- The new system will segregate encumbrance and accounts payable.
- We expect that the subsidiary ledger working properly by the end of fiscal year 2003-2004.
- The construction in progress cost will be established in the new system. The technical support of the system is offering by the personnel from OCAM.

The Municipality contract outsources to correct all finding about general fixed assets and generate a full disclosure financial statement.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

The Finance Director will coordinate with Section 8 Director the following correction in the Section 8 office.

- Will made a new effective control to pay the rent before day 5 of each month.

"Naranjito, mi hogar predilecto"

Page 2

CORRECTIVE ACTIONS

AUDIT REPORT 2002-2003 (Continue)

- We have a new building the to transfer the Section 8 and others offices to this building. In this building the program has more space for the private interview with tenant. At this moment we are making the necessary improvement that the building needed to be ready to uses.



Manuel de J. Ortega Rodriguez
Mayor