

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

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

**MUNICIPALITY OF PATILLAS, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2003  
(INDEPENDENT AUDITOR'S REPORT)**

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CARRERA DE ADMINISTRACION

**Juan A. Feliciano Charneco \* Certified Public Accountant**



OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**MUNICIPALITY OF PATILLAS, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2003  
(INDEPENDENT AUDITOR'S REPORT)**

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**INDEPENDENT AUDITOR'S REPORT ON GENERAL-PURPOSE  
FINANCIAL STATEMENTS**

Mayor of the Municipality of Patillas  
Patillas, Puerto Rico

I have audited the general-purpose financial statements of the Municipality of Patillas, Puerto Rico, as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Patillas, Puerto Rico Management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

Except as discussed in the following paragraph, I have conducted my audit in accordance with 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 I 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The Municipality of Patillas, Puerto Rico, don't have evidence with respect to the ownership of some property building at the beginning of the year, these fixed assets were not audited by me therefore, I do not express an opinion on such amounts presented in the general fixed assets account group.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Patillas, Puerto Rico, as of June 30, 2003, and the results of its operations and the changes in fund balances for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 26, 2003 on my consideration of Municipality of Patillas, Puerto Rico internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

**San Juan, Puerto Rico**

November 26, 2003

The stamp number  
was affixed to the  
original of this report

1937780

*Juan P. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO

License No. 1263

Expires December 1, 2004



**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNTS GROUPS**  
 June 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNTS GROUPS		TOTALS
	General	Debt Service	Capital Projects	Special Revenues Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only Year Ended 2003)
<b>ASSETS</b>							
Cash and investments (Note 2)	\$ 1,646,976	\$ -	\$ 913,520	\$ 4,812,893	\$ -	\$ -	\$ 7,373,389
Cash with fiscal agent and other (Note 7 & 8)	-	933,952	-	-	-	-	933,952
Accounts receivable other government	-	-	105,714	459,388	-	-	565,102
Due from general fund and other funds	213,493	-	-	853,083	-	-	1,066,576
Property, plant and equipment (Note 6)	-	-	-	-	13,342,238	-	13,342,238
Amount to be provided for taxes advances (Note 3)	-	-	-	-	-	1,403,987	1,403,987
Amount available in debt Service Fund	-	-	-	-	-	933,952	933,952
Amount to be provided for retirement of general long-term debt (Note 7)	-	-	-	-	-	3,424,736	3,424,736
Amount to be provided for payment of accrued compensated absences (Note 1 F)	-	-	-	-	-	352,295	352,295
<b>Total assets and other debits</b>	<b>\$ 1,860,469</b>	<b>\$ 933,952</b>	<b>\$ 1,019,234</b>	<b>\$ 6,125,364</b>	<b>\$ 13,342,238</b>	<b>\$ 6,114,970</b>	<b>\$ 29,396,227</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 403,880	\$ -	\$ 73,476	\$ 1,265,788	\$ -	\$ -	\$ 1,743,144
Due to special revenue funds and other	853,083	-	-	-	-	-	853,083
General obligations bonds payable (Note 7)	-	-	-	-	-	4,358,688	4,358,688
Due to government entity	122,038	-	-	-	-	-	122,038
Vested compensated absences (Note 1 F)	-	-	-	-	-	352,295	352,295
Deferred revenue (Note 4)	348,022	-	-	-	-	-	348,022
Estimated property tax advances (Note 3)	-	-	-	-	-	1,403,987	1,403,987
<b>Total liabilities</b>	<b>1,727,023</b>	<b>-</b>	<b>73,476</b>	<b>1,265,788</b>	<b>-</b>	<b>6,114,970</b>	<b>9,181,257</b>
<b>Fund Equity:</b>							
Investment in general fixed assets (Note 6)	-	-	-	-	13,342,238	-	13,342,238
Reserve for encumbrances	24,158	-	-	-	-	-	24,158
<b>Fund balances:</b>							
Unreserved	-	-	-	-	-	-	-
Designated for debt service (Note 8)	-	933,952	-	-	-	-	933,952
Designated for future years	109,288	-	945,758	4,859,576	-	-	5,914,622
<b>Total Fund Equity</b>	<b>133,446</b>	<b>933,952</b>	<b>945,758</b>	<b>4,859,576</b>	<b>13,342,238</b>	<b>-</b>	<b>20,214,970</b>
<b>Total Liabilities, Fund Equity &amp; Other Credits</b>	<b>\$ 1,860,469</b>	<b>\$ 933,952</b>	<b>\$ 1,019,234</b>	<b>\$ 6,125,364</b>	<b>\$ 13,342,238</b>	<b>\$ 6,114,970</b>	<b>\$ 29,396,227</b>

See notes to general purpose financial statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	GOVERNMENTAL FUND TYPES				TOTALS
	General	Debt Service	Capital Projects	Special Revenues Funds	(Memorandum Only Year Ended 2003)
<b>REVENUES</b>					
Property taxes (Note 3)	\$ 298,686	\$ 208,110	\$ -	\$ -	\$ 506,796
Local taxes (Note 4)	809,229	-	-	-	809,229
Intergovernmental revenues (Note 5)	4,035,842	-	192,344	1,377,829	5,606,015
Rent of properties (Note 6)	31,209	-	-	-	31,209
Interest income	145,353	9,361	-	-	154,714
Other revenues (Note 5a)	777,453	-	594	-	778,047
Federal financial award	-	-	1,199,189	1,361,781	2,560,970
<b>Total revenues</b>	<b>6,097,772</b>	<b>217,471</b>	<b>1,392,127</b>	<b>2,739,610</b>	<b>10,446,980</b>
<b>EXPENDITURES:</b>					
Current:					
Municipal council	192,975	-	-	-	192,975
Administration	2,716,133	-	295,775	2,553,161	5,565,069
Public safety	2,726,365	-	-	-	2,726,365
Health	516,597	-	-	-	516,597
Capital projects	-	-	944,027	-	944,027
Other expenditures	339,074	-	-	-	339,074
Debt service:	-	-	-	-	-
Principal retirement	-	235,750	-	-	235,750
Interest and fiscal charges	-	160,750	-	-	160,750
<b>Total expenditures</b>	<b>6,491,144</b>	<b>396,500</b>	<b>1,239,802</b>	<b>2,553,161</b>	<b>10,680,607</b>
Excess of revenues over (under) expenditures	(393,372)	(179,029)	152,325	186,449	(233,627)
Other financing source (uses):					
Net advance of property taxes (Note 3)	774,042	-	-	-	774,042
Transfer in (out) to debt service fund	(175,237)	175,237	-	-	-
Transfer to special revenue fund	(94,000)	-	-	94,000	-
Transfer from debt services	9,438	(9,438)	-	-	-
Net bonds issued	-	-	-	248,413	248,413
Capital disbursement	-	-	-	(1,249,948)	(1,249,948)
<b>Total other financing source (uses)</b>	<b>514,243</b>	<b>165,799</b>	<b>-</b>	<b>(907,535)</b>	<b>(227,493)</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>120,871</b>	<b>(13,230)</b>	<b>152,325</b>	<b>(721,086)</b>	<b>(461,120)</b>
Fund balance June 30, 2002	231,879	947,182	452,158	4,657,856	6,289,075
Prior period adjustment (See note 9)	(219,304)	-	341,275	922,806	1,044,777
<b>Fund balance June 30, 2003</b>	<b>\$ 133,446</b>	<b>\$ 933,952</b>	<b>\$ 945,758</b>	<b>\$ 4,859,576</b>	<b>\$ 6,872,732</b>

See notes to general purpose financial statements.

MUNICIPALITY OF PATILLAS, PUERTO RICO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 BUDGET (GAAP BASIS) AND ACTUAL - GENERAL AND DEBT SERVICE FUND  
 FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2003

	GENERAL FUNDS			DEBT SERVICE FUND			TOTALS
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	(Memorandum Only Year Ended) 2003
Revenues:							
Property taxes	\$ 298,686	\$ 298,686	\$ -	\$ 223,029	\$ 208,110	\$ (14,919)	\$ 506,796
Local taxes	889,096	809,229	(79,867)	-	-	-	809,229
Intergovernmental Revenues	4,086,417	4,035,842	(60,575)	-	-	-	4,035,842
Rent of properties	34,180	31,209	(2,971)	-	-	-	31,209
Interest income	145,144	145,353	209	-	9,361	9,361	154,714
Other revenues	792,156	777,453	(14,703)	-	-	-	777,453
Total Revenues	6,255,679	6,097,772	(157,907)	223,029	217,471	(5,558)	6,315,243
Expenditures:							
Current:							
Municipal Council	180,624	192,975	(12,351)	-	-	-	192,975
Administration	2,758,284	2,716,133	42,151	-	-	-	2,716,133
Public Safety	2,593,525	2,726,365	(132,840)	-	-	-	2,726,365
Health	540,514	516,597	23,917	-	-	-	516,597
Other Expenditures	401,205	339,074	62,131	-	-	-	339,074
Debt Service:							
Principal Retirement	-	-	-	159,000	235,750	(76,750)	235,750
Interest and Fiscal Charges	-	-	-	38,350	160,750	(122,400)	160,750
Total Expenditures	6,474,152	6,491,144	(16,992)	197,350	396,500	(199,150)	6,887,644
Excess of Revenues over (under) Expenditures	(218,473)	(393,372)	(174,899)	25,679	(179,029)	(204,708)	(572,401)
Other Financing Source (Uses):							
Net Advance of Property Taxes	777,252	774,042	(3,210)	-	-	-	774,042
Transfer to debt service fund	(199,138)	(175,237)	23,901	175,237	175,237	-	-
Transfer to special fund	(94,000)	(94,000)	-	-	-	-	(94,000)
Transfer from debt service fund	9,438	9,438	-	(9,438)	(9,438)	-	-
Total Other Financing Sources (Uses):	493,552	514,243	20,691	165,799	165,799	-	680,042
Excess (deficiency) of revenues and other sources over expenditures	275,079	120,871	(154,208)	191,478	(13,230)	(204,708)	107,641
Adjustments required under generally accepted accounting principles:							
Other GAAP adjustment to revenues	-	-	-	-	-	-	-
Other GAAP adjustment to expenditures	-	-	-	-	-	-	-
Fund balance at beginning of year	231,879	231,879	-	947,182	947,182	-	1,179,061
Prior period adjustment (See Note 9)	(219,304)	(219,304)	-	-	-	-	(219,304)
Fund balance June 30, 2003	\$ 287,654	\$ 133,446	\$ (154,208)	\$ 1,138,660	\$ 933,952	\$ (204,708)	\$ 1,067,398

See notes to general purpose financial statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

1) Organization, Operations and Summary of Significant Accounting

The accounting policies of the Municipality of Patillas, Puerto Rico (Municipality) conform 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.

Financial Reporting Entity

The Municipality of Patillas (Municipality) was established in the year 1811, as a governmental unit operates under the Law No. 81 of August 30, 1991 known as "Municipal Autonomy 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 Puerto Rico. The legislative body consists of fourteen councilmen also elected in the general elections of Puerto Rico for a four years period.

The Municipality provides services such as: health, public works, human services, sanitation, welfare, education, public safety, housing and urban development, culture and recreation, and other general and administrative services. The general purposes financial statements of the Municipality have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental Units. The Governmental Accounting Standards Board (GASB), is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its a codification of the existing Governmental Accounting and financial Reporting Standards which, along with subsequent GASB Pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The general purpose financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and Members of the Municipal Assembly of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units, which may or may not fall within the Municipality's financial statements. The basic criterion for including a component unit within the Municipality's reporting applying the provisions made entity of statement No. 14 of the Governmental Accounting Standard Board (GASB), the oversight responsibility is by Patillas Municipality Assembly.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(Continued)**

In evaluating the Municipality as a reporting entity, management has addressed all potential component units, which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statement. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

**Manifestations of Oversight Responsibility**

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

**Accountability for Fiscal Matters**

- Budget Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight, which may significantly influence the entity relationship, are:

**Scope of Public Service**

**Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to be Municipality of Patillas indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

**(A) Basis of Presentation - Fund Accounting**

The accounts of the Municipality are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditure expenses. The various funds are summarized by type in the financial statements. The Municipality uses following fund types and account groups:

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

Governmental Fund Types

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

The following are the Municipality's governmental fund types:

**General Fund-** The general fund 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. Revenues are derived from local taxes, property taxes, intergovernmental.

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

**Capital Projects Funds -** The capital project funds are used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, except projects to be financed through the special revenue funds. Revenues and financing resources intergovernmental are derived primarily from the issuance of bonds and receipts of grants.

**Special Revenue Funds -** Special Revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include all major federal and state grants.

**Account Groups -** Account groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups.

General fixed assets and general long-term liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been capitalized. Such assets are normally immovable and of value only to the City.

All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-term Debt Account Group.

**(B) Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, which is recorded, when due, are recorded when the liability is incurred, is measurable.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however especial two types of these revenues. In one, money must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other, money is virtually unrestricted as to purpose of expenditure and is usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and fogies, sale of property and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation and sick leave pay and (2) principal and interest on general long-term debt, which is recognized when due. Investment earnings (interest) are recorded as earned since they are measurable and available.

All fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Interest income is recognized and accrued in the accounting period in which they are earned.

**(C) Budgetary Data**

The Municipality follows these procedures, which are in accordance with the Municipal Autonomy Law of August 30, 1991 in establishing the budgetary data reflected in the general-purpose financial statements.

- (1) Prior to May 31, the Mayor submits to the Municipal Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Council.
- (3) Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) The Major is required by the Municipal Autonomous Law to present before October 15 the results of operations of the preceding year.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (6) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Council has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

The actual results of operations, presented in the Statement of Revenues and Expenditures Budget and Actual-General Fund, are in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis.

The budget prepared for each of the special revenue funds is based in a program period, which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary basis.

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

The special funds of the special revenue fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Assistance Programs included in the capital projects and special revenue funds in based on a program period, which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

**(D) Inventories**

The general fund purchases office and printing supplies, gasoline, and oil and other items. The cost of purchases is recorded as expenditure and the inventory is not recorded in the general-purpose financial statements.

**(E) Inter-fund Transactions**

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal funds.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(Continued)**

**(F) Compensated Absences**

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 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 part of the sick leave terminates all rights for compensation, except for employees with ten or more year of service who are entitled to sick leave pay 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 accrues a liability for compensated absences, which meet the following criteria.

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences are attributable to employees 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 GASB Number 16, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources, is included in the general long-term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources is not included as an accrued liability in the general fund. Employees' maximum allowed accumulated vacations and sick leave are accounted for in the general long-term debt account group.

Ending balance of \$352,295.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(Continued)**

(G) Insurance

The Municipality has insurance coverage for its public facilities, primarily to provided protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

(H) Total Columns on Combined Statements-overview

Total columns on the Combined Statements-Overview are captioned memorandums only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data on comparable to a consolidation. Underfund elimination have not been made in the aggregation of this data.

(I) Encumbrances

Encumbrances accounting are employed in the governmental fund types. Under the encumbrance system all purchases orders, contracts and other commitments issued for goods and services not received at year-end are recorded in order to reserve that portion of the applicable appropriation. The Municipality will honor where the appropriations lapse at year-end these. under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and the do not constitute expenditures or liabilities since the commitments will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

**(2) Cash and Investment**

The Municipality is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (Department of the Treasury), and such deposits should be kept in separate bank accounts in the name of the Municipality. All cash at June 30, 2003 is maintained in institutions approved by the Department of the Treasury.

The Municipality follows the practice of pooling cash of all funds, except from extracted funds held by the Municipal Revenue Collection Center for repayment of principal and interests on general long-term obligations, and federal financial assistance. Deposits were with the contracted depository bank in interest bearing accounts, which were secured at balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage, up to maximum of \$100,000. Deposits in excess of \$100,000 are collateral by bank securities to properly safeguard such funds.

Issued by	Certificate Number	Amount	Interest Rate	Due Date
Oriental Bank	1031006163	\$ 500,000	2.75	10-03-03
Oriental Bank	1031006171	250,000	2.50	10-03-03
Oriental Bank	1031006189	250,000	2.50	10-03-03
Oriental Bank	1031006197	250,000	2.25	07-04-03
Oriental Bank	1031006422	100,000	1.01	07-13-03
Banco Popular de PR *	1110000035	100,000	1.55	07-03-03
Banco Popular de PR *	1110000036	100,000	1.55	07-03-03
Oriental Bank *	1031006391	100,000	1.00	07-13-03
Oriental Bank *	1031006406	100,000	1.01	07-13-03
Oriental Bank *	1031006414	100,000	1.01	07-13-03
		<u>\$1,850,000</u>		

\*Cash balance separated by amount assigned for specified purposes included in the capital project fund.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

(3) Property Taxes

The Collection Center of Municipal Revenues (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Patillas. Law number 81, approved on August 30, 1991 named Autonomous Municipalities of the Municipality of Puerto Rico Act of 1991, authorizes the municipalities of Puerto Rico to levy a tax contribution over all properties within the territorial limits of the Municipality. Nevertheless, CRIM is responsible for the administration and collection of the corresponding tax contribution, during such fiscal year.

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.

Law Number 83, approved on August 30, 1991, named Municipal Property Tax Law of 1991, Article 2.01, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a basic property tax contribution of up to 4% annually, over the assessed value of all real and non – exonerated property within the municipality, in addition to other contributions imposed based on laws in force. Also, law Number 83, in Article 2.02, authorize the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a special contribution of up to 1.03% annually, over the assessed value of all real, personal and non-exonerated property within the Municipality, to be applied to the amortization of general long-term obligations. This special contribution is also in addition to other contributions imposed based on laws in force.

Based on Articles 2.01 and 2.02 of law number 83, the Municipality of Patillas, Puerto Rico, imposed property tax rates over the assessed value of all real personal property within the Municipality. The tax rates are detailed as follows:

	<b>Personal Property</b>	<b>Real Property</b>
Basic Contribution	4.00%	6.00%
Additional Special State Contribution	1.03	1.06
Additional Special Municipal Contribution	1.25	1.25
	6.28	8.28
Discount Granted by Central Government	(.20)	(.20)
Effective Tax Rate applicable to Taxpayers	6.08%	8.28%

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. 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 (CRIM) instead of the property tax payer becomes the source of payment in these cases. Complete exemption from personal property taxes up an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The Municipal Revenue Collection Center (CRIM) reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advance to the municipality during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the Municipal Revenue Collection Center (CRIM) of the basic tax from the taxpayers.

The basic tax advance by the Municipal Revenue Collection Center (CRIM) is recorded in the general fund as other financing sources. As this tax is collected and reported by the Municipal Revenue Collection Center (CRIM), it is recorded in the general fund as revenue and as expenditure in the general long-term debt account group. The property tax received from the Municipal Revenue Collection Center (CRIM), which is related to the exoneration granted by the Commonwealth of Puerto Rico, is reflected as revenue in the general fund.

The CRIM sends to the Municipality of Patillas, on monthly payments, 100% of the estimate, made at beginning of fiscal year, of the contribution assessed over property to be collected for the municipality. Within ninety (90) days after fiscal year end, CRIM will prepare a final analysis of funds distributed to the municipality, and the actual funds collected. If fewer funds were distributed, than the actual amount collected by CRIM, they, through the Government Development Bank of Puerto Rico (GDB), will send to the Municipality the remaining balance. If funds were distributed in excess of amounts that actually correspond to the Municipality, CRIM informs to the GDB, in order to retain from future monthly payments, the amounts send in excess.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

The following is a summary of the movement in property tax advances for the year ended June 30, 2003:

Net Advanced received	\$ 3,628,051
Amortization through collection of taxes by The Municipal Revenue Collection Center (CRIM)	513,778
Income from Lottery	340,497
Property tax Exempt	298,686
Other deductions	(4,551,322)
Un-amortized debt to Municipality during June 30, 2003	\$ 229,690
(Not included in the financial statements)	

The account payable arising from the settlements of the actual property tax collections versus property tax advances was reported by CRIM in a final basis. The un-amortized advance from June 30, 2003 (prior year). The balance was included in the long-term debt group of account.

**(4) 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 under the industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

- 1% for financial institutions
- for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

(5) Intergovernmental Revenues

Sources of intergovernmental revenues consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to capital improvement, which is accounted for through the special revenue and the capital project funds. Federal Financial assistance is recorded in the special revenue fund.

Intergovernmental revenues and federal awards received from the federal government are recorded following the applicable legal and contractual requirements. Essentially, there are two types of revenues; (1) revenues recognize based upon the expenditures recorded. This occurs when money must be expended on the specific purpose of project before any amounts will be paid to municipality. Similarly, if cost sharing or matching requirements exist, revenue recognition depends upon compliance with these requirements; and (2) resources reflected as revenues at the time of receipt or earlier. If susceptible to accrual. This applies to moneys virtually unrestricted as to purpose of expenditures and is usually revocable only for failure to comply with prescribed compliance requirements

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

**(6) Property, Plant and Equipment**

A- Property, plant and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

A summary of changes in General Fixed Assets follows:

Description	Beginning Balance 2002	Additions	Retirements (Adjustments)	Balance 2003
Real Property	\$ 9,037,801	\$ 628,168	\$ -	\$ 9,665,969
Machinery & Equipment	3,156,918	519,351	-	3,676,269
Construction in Progress				
	<b>\$12,194,719</b>	<b>\$1,147,519</b>	<b>\$</b>	<b>\$13,342,238</b>

**(7) Changes in General Long-Term Debt**

The following is a summary of bonds of the Municipality of Patillas for year ended June 30, 2003.

Description	Payable at July 1, 2002	Additions	Reductions	Balance June 30, 2003
General Obligations Bonds	\$4,344,438	\$250,000	\$235,750	\$4,358,688

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

General Obligation Bonds:

Description	Original Amount	Interest Rate	Balance 06-30-03	Due Date
Bonds Series 1987	\$525,000	5.0	\$194,000	01-01-2009
Bonds Series 2003	\$200,000	5.0	175,000	07-01-2008
Bonds Series 2003	\$255,000	5.0	250,000	07-01-2026
Bonds Series 2003	\$2,740,000	5.0	2,695,000	07-01-2026
Bonds Series 1986	\$2,500,000	5.0	420,000	07-01-2026
Bonds Series 1988	\$275,000	5.0	44,688	07-01-2026
Bonds Series 1997	\$400,000	8.0	330,000	07-01-2016
Bonds Series 2003	\$250,000	5.0	250,000	07-01-2009
			<b>\$4,358,688</b>	

The annual requirements to amortize all bonded debt outstanding as June 30, 2003 follows:

Year Ending	Principal	Interest	Total
2004	\$ 266,750	\$ 214,857	\$ 481,607
2005	278,750	217,922	496,672
2006	289,750	200,630	490,380
2007	291,438	182,761	474,199
2008	195,000	169,247	364,247
Subsequent years	3,037,000	1,051,742	4,088,742
	<b>\$4,358,688</b>	<b>\$2,037,159</b>	<b>\$6,395,847</b>

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

**(8) Debt Service Funds**

Revenues of debt service fund consist primarily of the ad-valorem property taxes, which are recognized as revenues when they are collected by Municipal Revenue collection Center (CRIM). The Municipal Revenue Collection Center (CRIM) withholds these collections for debt service requirements of the public improvements notes issued by the Municipality. The Municipality receives interest from CAE.

Principal and interest on these obligations are paid to the Governmental Development Bank.

Property taxes (CAE)	\$105,619
Municipal general funds	175,238
CAE	115,643
Total	\$396,500

Payments at June 30, 2003 were as follows:

Principal	\$235,750
Interests	160,750
Total	\$396,500

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(Continued)**

(9) Prior Period Adjustments

The general fund balance has been restated in order to report adjustment to balance of special revenue fund not previously reported.

(10) Deferred Income

The deferred income corresponds to income receipt these year from the next fiscal year from special revenue fund.

(11) Employees, Retirement Plan

a. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employees' Retirement System, of the Government of Puerto Rico an its Instrumentality's (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

b. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the plan by the plan numbers, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary. The Municipality's actual contribution for the year ended June 30, 2003 was \$218,537, which is equal to the required contribution.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

All employees 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 or more years of service are as follows:

Years of Service	Participant's Age	Pension Benefits
-----	-----	-----
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	55 or more	75% of the average of the three Years of highest salary during The employee's service period.

(12) Health Insurance

According to Law 29 as of July 1, 1998 The Municipality contributes to the Administration of Insurance of Health (ASES), the amount of \$269,923 during the year. A monthly contribution of \$22,494 was deducted from the amount received from the Municipal Collection Center. This contribution represented 6% of the prior year budget.

(13) Use of Estimates

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

(14) Contingencies

A. Litigation

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

**B. Federal Financial Assistance**

The Municipality receives financial assistance from the Federal Government in the form of grants or entitlements. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, which are disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

**Comptroller's Office Audits**

The Municipality of Patillas, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office issued a final report related to the financial operations of the Municipality dated November 21, 2001. The report covers municipal operations from January 1, 1997 through January 30, 2001. Such report includes findings regarding to certain alleged irregularities in the operations and administration of the Municipality of Patillas, Puerto Rico, during the stated period. The Comptroller's opinion in the report stated that the operations of the Municipality were conducted substantially in accordance with laws and regulations, except for some findings disclosed in specific municipal operations.

**(15) Claims and Contingencies**

**Contingency**

As per Act No. 72 of September 7, 1993, "Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. As of June 30, 2003 the amount billed by HIA to the Municipality amounted to \$1,458,360. The Municipality alleged that the HIA never discussed the amount to be contributed by the Municipality and is determined unilaterally. The Municipality's management decided not to record the liability on the financial statements.

On July 7, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 will be amortized using de Municipality's lottery income that will be earned on the additional lottery games.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(continued)**

(16) Stewardship, Compliance and Accountability:

As of June 30, 2003 the actual income was less to the income budget, the excess occurred primary due to excise tax contribution and income received from general government that was less than budget. The excess of expenditures of interest paid disclose in the debt service fund disclosed excess of expenditures over the amount budget due to interest paid in new bond issue.

(17) The Municipality use de landfill of the Municipality of Arroyo.

(18) GASB - 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: government-wide financial statements and fund presentation. The government-wide financial statement method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major’s funds rather than fund types. Capital assets and depreciation charges are reported on the entity-wide perspective financial statements. The management’s discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information. GASB-34 will begin to take effect for the Municipality in fiscal year beginning after June 15, 2003.

Under the new reporting model, general-purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management’s discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other required by previous GASB pronouncements, if applicable.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Department of Housing and Urban Development Public and Indian Housing Section 8 - Voucher	14-855	RQ46-EO-57-001/002	\$ 307,005
Passed-through Commonwealth of Puerto Rico Commissioners Office of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)	14-228	FC-2002	7,380
	14-228	FD-2001	270,883
	14-228	FD-2000	70,640
	14-228	FD-1999	260,614
	14-228	FD-1998	295,575
	14-228	FD-1998	102,468
	14-228	FD-1997	359
	14-228	FD-1996	17,270
	14-228	FD-1993	47,309
			<u>1,072,498</u>
UDAG (Program Income)	14-221	-	45,433
<u>U.S. Department of Justice:</u>			
Office of Community Oriented Policing Services Troops to C.O.P.S.	16-711	-	125,357
U.S. Department of Health and Human Services:			
Passed-through Governors Office for Human Development:			
Administration for Children and Families			
Child Care	93-575	-	2,819
Head Start	93-600	-	657,885
			<u>660,704</u>
<u>U.S. Department of Agriculture:</u>			
Passed-through Governors Office for Rural Housing Service:			
Rural Housing Preservation Grant	10-433	-	7,731
Passed-through Governors Office of Adm. For Children and Families Community Service Block Grant	93-569	-	20
<u>U.S. Federal Emergency Management Agency:</u>			
Passed-through Emergency Management State and Local Assistance FEMA	83-544	1247	63,044
			<u>\$ 2,281,792</u>

See notes to the schedule of expenditures of federal awards.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS**  
**FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2003**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Patillas, Puerto Rico and is presented on the accrual basis of accounting. 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.

(2) MAJOR FEDERAL AWARDS

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs and Federal Emergency Management Agency represents the major federal financial awards of the Municipality. Major federal awards represent 89% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name by the catalog of Federal Domestic Assistance Agency Program Index.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Patillas, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total</u>
Federal Programs Expenditures	\$ 1,156,130	\$ 1,125,662	\$ 2,281,792
State & Municipal Expenditures	1,397,031	114,140	1,511,171
Total Expenditures	\$ 2,553,161	\$ 1,239,802	\$ 3,792,963

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

To the Mayor and Municipal Council  
Municipality of Patillas, Puerto Rico

I have audited the general-purpose financial statements of the Municipality of Patillas; Puerto Rico, as of and for the year ended June 30, 2003, and has issued a qualified (for its general fixed assets) report thereon dated November 26, 2003. I conducted my audit in accordance with generally accepted auditing standards 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 obtain reasonable assurance about whether the Municipality of Patillas financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of law, regulations, contracts and grants, non-compliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Patillas, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purposes 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.

I noted no matters involving the internal control over financial reporting and its operation that I consider being material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Municipality of Patillas, in a separate dated November 26, 2003.

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

**San Juan, Puerto Rico**  
**November 26, 2003**

The stamp number  
was affixed to the  
original of this report

**1937781**

*Juan P. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 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**

Mayor of the Municipality of Patillas  
Patillas, Puerto Rico

**Compliance**

I have audited the compliance of the Municipality of Patillas, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Municipality of Patillas major federal programs is identified in the summary of auditor's result 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 Municipality of Patillas Management. My responsibility is to express an opinion on Municipality of Patillas compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, 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 and Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Patillas, compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Patillas compliance with those requirements.

In my opinion, Municipality of Patillas, 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 my auditing procedures disclosed instances of noncompliance with those requirements that 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 2003-01, 2003-02 and 2003-03.

Internal Control Over Compliance

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

My consideration of the internal control over 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 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. I noted no matters involving the internal control over compliance and its operation that I consider being material weaknesses.

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

**San Juan, Puerto Rico**  
November 26, 2003

The stamp number  
was affixed to the  
original of this report

1937782

*Juan P. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004



A circular professional seal for Juan A. Feliciano Charneco, CPA. The seal contains the text: "JUAN A. FELICIANO CHARNECO" around the top edge, "CONTADOR PUBLICO AUTORIZADO" in the center, and "LIC. No. 1263" at the bottom. The words "PUERTO RICO" are written along the bottom inner edge of the seal.

**MUNICIPALITY OF PATILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**A. Summary of Audit results**

**Financial Statements**

Type of auditor's issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes  No

Reportable condition(s) identified not considered  
to be material weaknesses?

Yes  No None reported

Noncompliance material to financial statements noted?

Yes  No

**Federal Awards**

Internal control over mayor programs:

Material weakness(es) identified?

Yes  No

Reportable condition(s) identified not

Considered being material weaknesses?

Yes  No

Type of auditor's report issued on compliance considered  
For mayor programs

Unqualified

Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a) are reported on part C, of this schedule

Yes  No

**MUNICIPALITY OF PATILLAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

2002 – Finding No. 2: Troops to Cops  
CFDA No. 16-711  
Year ended June 30, 2002

**Condition**

It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems, Sub-part C, Section 21, b.

1. Comparisons of outlays with budget amount for award.
2. Accounting records are made in cash basis instead of accrual basis.

**Recommendation**

The Municipality establishes adequate procedures in order to control in a more effective manner the financial and program management system standards.

**Current Status**

The mayor gave instructions to establish adequate procedures to comply with requirements.

Finding reported again.

**MUNICIPALITY OF PATILLAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

2002 – Finding No. 1: FEMA 1247 DR-PR  
CFDA No. 83-544  
Year ended June 30, 2002

Condition

It was noted in my test of compliance that is the Municipality is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of Representative (GAR) and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Recommendation

The Municipality establish adequate procedures in order to control in a more effective manner the need of the federal funds used.

Current Status

The mayor gave instructions to establish adequate procedures to comply with the requirements.

Finding reported again.

Identification of Major Programs

<i>CFDA Number (s)</i>	<i>Name of Federal Program or Cluster</i>
14.228	Community Develop. Block Grant/State's Program
14.855	Section 8 Voucher
93.600	Head Start

Dollar threshold used to distinguish  
Between type A and type B Programs

300,000

Auditee qualified as low-risk auditee

Yes  No

B - Financial Statements Findings

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

C - Federal Award Findings and Questioned Cost

Federal Program Information

**MUNICIPALITY OF PATILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Justice  
Passed-through Commonwealth of PR  
Commissions Office of Community Oriented Policing Services (COPS)  
CFDA No. 16-711  
Grant Troops to Cops 99-UM-WX-3054  
Year Ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
2003-02	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems, Sub-part C, Section 21, b.</p>	-0-

1. Comparisons of outlays with budget amount for award.
2. Accounting records are made in cash basis instead of accrual basis.

Cause

The Municipality does not comply with the Financial and Program Management System Standards.

Effect

The Municipality does not maintain an adequate procedures for the Administration of Community Oriented Policing Services.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the financial and program management system standards.

Municipality Response:

We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and Program Management System Standards.

**MUNICIPALITY OF PATILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Federal Emergency Management Agent  
Passed-through Commonwealth of PR Representative (C.A.R.)  
CFDA No. 83-544  
Grant – FEMA – 1247 DR-PR  
Year ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
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2003-01	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance that is the Municipality is not Complying with the criteria established by Treasury Circular letter 1075. The Municipality 's financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from the Office of Representative (GAR) and the disbursements by the Municipality. It was noted during my audit that the Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u> The Municipality does not maintain adequate procedures for the administration of cash that determine properly their use needed.</p> <p><u>Auditor's Recommendation</u> The Municipality must establish adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u> We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedure, followed to establish a procedure, to minimize the time between the funds revenue and the expenditures.</p>	<p>-0-</p>

**MUNICIPALITY OF PATILLAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

2002 – Finding No. 3: Child Care  
CFDA No. 93-575  
Year ended June 30, 2002

Condition

It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems, Sub-part C, Section 21, b.

1. Comparisons of outlays with budget amount for award.
2. Accounting records are made in cash basis instead of accrual basis.

Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the financial and program management system standards.

Current Status

The mayor gave instructions to establish adequate procedures to comply with requirements.

Finding was corrected.

**MUNICIPALITY OF PATILLAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

2002 – Finding No. 4: Rural Housing Preservation (Program Income)  
CFDA No. 10-433  
Year ended June 30, 2002

**Condition**

It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems, Sub-part C, Section 21, b.

1. Comparisons of outlays with budget amount for award.
2. Accounting records are made in cash basis instead of accrual basis.

**Recommendation**

The Municipality establishes adequate procedures in order to control in a more effective manner the financial and program management system standards.

**Current Status**

The mayor gave instructions to establish adequate procedures to comply with requirements.

Finding was corrected.

**MUNICIPALITY OF PATILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Housing and Urban Development  
Passed-through the Office of the Commissioner of Municipal Affairs  
CFDA No. 14-228  
Grant No. SBGP – 1993, 1999, 2000 and 2001  
Year ended June 30, 2003**

<u>Ref. No.</u>	<u>Finding / Noncompliance</u>	<u>Questioned Cost</u>
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2003-03 Statement of Condition and Criteria

It was noted in my test of compliance that is the Municipality is not Complying with the criteria established by Treasury Circular letter 1075. The Municipality 's financial management system.

-0-

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Commissioner of Municipal Affairs and the disbursements by the Municipality. It was noted during my audit that the Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.

Effect

The Municipality does not maintain adequate procedures for the administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality must establish adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedure, followed to establish a procedure, to minimize the time between the funds revenue and the expenditures.



**ESTADO LIBRE ASOCIADO DE PUERTO RICO**  
**MUNICIPIO DE PATILLAS**  
**Apartado 698**  
**PATILLAS, PUERTO RICO 00723**

**OFICINA DE FINANZAS**

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2003**  
**(continue)**

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated</u>
2003-01	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
	<u>Statement of Condition:</u> The FEMA Program Standards for financial management System.	On or before end of 2003-04 Fiscal year.
	<u>Corrective Action Planned:</u> The HOPWA Administration will evaluate and implement adequate Procedures to control and use in a effective manner, federal funds. Standards for financial management system.	
	<u>Person Responsible:</u> Josvic Pérez, Finance Director	
Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated</u>
2003-02	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
	<u>Statement of Condition:</u> The Cop's Program cash balance over \$5,000 for periods end longer than 3 days	On or before end of 2003-04 fiscal year
	<u>Corrective Action Planned:</u> The Housing Opportunities for Persons with Aids Administrator Established adequate procedures to control and use in a effective manner, federal funds.	
	<u>Person Responsible:</u> Josvic Pérez, Finance Director	



**ESTADO LIBRE ASOCIADO DE PUERTO RICO**  
**MUNICIPIO DE PATILLAS**  
**Apartado 698**  
**PATILLAS, PUERTO RICO 00723**

OFICINA DE FINANZAS

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2003**  
**(CONTINUE)**

Ref. No. Finding /Corrective Action  
2003-03 Planned/Person Responsible:

Anticipated  
Completion Date

Statement of Condition:

The SBGP Program Standards for financial Management system

On or before  
end of 2003-04  
fiscal year

Corrective Action Planned:

The SBGP Administration will evaluate and implement Adequate procedures to control and use in a effective manner, Federal funds. Standards for financial management systems.

Person Responsible:

Josvic Pérez, Finance Director