

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

**MUNICIPIO DE PATILLAS**  
**AUDITORIA 2004-2005**  
**30 DE JUNIO DE 2005**

OFICINA DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**MUNICIPALITY OF PATILLAS, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2005  
(INDEPENDENT AUDITOR'S REPORT)**

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OFICINA DEL COMISIONADO  
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*Juan Feliciano Charneco \* Certified Public Accountant*

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**SINGLE AUDIT REPORT**  
**JUNE 30, 2005**

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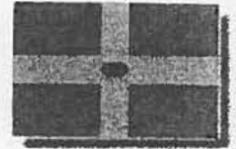
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ESTADO LIBRE ASOCIADO DE PUERTO RICO  
**MUNICIPIO DE PATILLAS**  
**DEPARTAMENTO DE FINANZAS**  
APARTADO 698  
PATILLAS, PUERTO RICO



Sr. Narciso Velásquez Rodríguez  
Finance Director

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Patillas, we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2004-2005 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statement also supports our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

### FINANCIAL HIGHLIGHTS

- The assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$6,743,548 (net assets).
- The adjusted actual of the General Fund operations resulted in a favorable variance of \$445,955 as compared to the revised budget.
- As June 30, 2005 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$445,955 a decrease of \$1,349,856 in comparison with the prior year.
- Loans principal payments were \$298,750 during fiscal year 2004-05. Loan proceeds from new debt issued amounted to \$385,000 during the same fiscal year.

### New Requirements for the Financial Reporting

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

# **MUNICIPALITY OF PATILLAS MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Financial Statements Components**

The basic financial statement consist of government wide financial statements, the major individual funds financial statement, and notes to the financial statements that provides more details.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most privet sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

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

**MUNICIPALITY OF PATILLAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Infrastructure Assets**

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets managements system, which periodically, by category, measures and demonstrate its maintenance system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

The Municipality has not recorded the infrastructure assets and will comply with GASB Statement 34 before 2006-07.

**Government-Wide Statement**

*Statement of Net Assets*

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$6,743,955 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

**MUNICIPALITY OF PATILLAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Net Assets  
As of June 30, 2005 and 2004**

	2005	2004
Current and other assets	\$3,976,019	\$ 5,732,891
Capital assets	10,658,921	9,763,339
<b>Total assets</b>	<b>\$14,634,940</b>	<b>\$15,496,230</b>
Current and other liabilities	\$ 2,396,111	\$ 2,307,111
Long-term liabilities	<u>5,495,281</u>	<u>5,511,759</u>
<b>Total liabilities</b>	<b>7,891,392</b>	<b>7,818,870</b>
Net assets:		
Invested in capital assets, net related debt	4,484,002	4,702,200
Debt service	1,043,291	929,007
Special and other funds	278,855	846,690
Capital project fund	491,445	238,862
Unrestricted	445,955	960,601
<b>Total net assets</b>	<b>\$ 6,743,548</b>	<b>\$ 7,677,360</b>

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. Such amount will increase as the infrastructure assets are identified and included in the financial statements.

**Statement of Activities**

*The following reflects the condensed Statement of Activities of the Primary Government:*

**For the year ended June 30, 2005 and 2004**

	2005	2004
General revenue	\$ 8,622,718	\$ 9,732,406
Program revenue	<u>3,369,600</u>	<u>2,757,974</u>
<b>Total revenue</b>	<b>11,992,318</b>	<b>12,490,380</b>
Expenses		
Governmental activities	12,926,130	10,608,895
<b>Change in net assets</b>	<b>\$ (933,812)</b>	<b>\$ 1,881,485</b>

**MUNICIPALITY OF PATILLAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following reflects the condensed Balance Sheet of the Governmental Funds:

**Governmental Funds  
Balance Sheet  
June 30, 2005 and 2004**

	2005	2004
<b>Assets:</b>		
Cash	\$ 2,025,979	\$ 4,471,391
Restricted Cash	1,043,291	1,068,813
Accounts Receivable	2,271,782	637,820
<b>Total Assets</b>	<b>\$ 5,341,052</b>	<b>\$ 6,168,024</b>
Liabilities and Fund Balance		
<b>Liabilities:</b>		
Total liabilities	\$ 3,081,506	\$ 2,357,654
<b>Fund Balances</b>	2,259,546	3,810,370
<b>Total liabilities and Fund Balances</b>	<b>\$ 5,341,052</b>	<b>\$ 6,168,024</b>

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The increase in liabilities is due mainly to the accounts payable of special and capital projects funds. The decrease in assets is reflected to increase in construction in progress.

**MUNICIPALITY OF PATILLAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2005 and 2004**

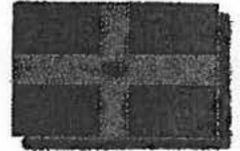
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Property taxes	\$ 1,631,440	\$ 1,432,181
Volume of business tax	404,383	402,310
Intergovernmental revenue	4,836,599	5,535,222
Federal grants	3,595,969	3,292,302
Other	2,423,817	2,540,560
<b>Total Revenues</b>	<b>12,892,208</b>	<b>13,202,575</b>
Liabilities and Fund Balance		
<b>Expenditures:</b>		
General Government	3,960,725	4,259,570
Public safety and public work	3,522,790	3,666,203
Education and training and culture	1,215,573	1,408,982
Capital projects	2,622,090	1,414,290
Other	1,461,026	574,564
Bonds, notes and interests	501,027	468,126
<b>Total Expenditures</b>	<b>13,283,231</b>	<b>11,791,735</b>
Excess of revenues (expenditures)		
Over expenditures (revenues)	\$ (391,023)	\$ 1,410,840

The most significant changes of this statement is as follows:

- The larger decrease in revenues is related to intergovernmental revenue for the amount of \$698,623.
- The most significant change sin the expenditures were an increase in capital project for approximately \$1.2 millions related with capital outlays.



**ESTADO LIBRE ASOCIADO DE PUERTO RICO**  
**MUNICIPIO DE PATILLAS**  
**DEPARTAMENTO DE FINANZAS**  
**APARTADO 698**  
**PATILLAS, PUERTO RICO**



**MUNICIPALITY OF PATILLAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Economic Factors and Next Year Budget**

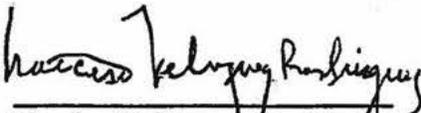
The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 14 members.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's Budget for fiscal year 2004-2005 for \$1,091,681 is over last fiscal year (2004-2005).

**Contacting the Municipality's Financial Management**

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.

  
Narciso Velázquez Rodríguez  
Finance Director

*JUAN A. FELICIANO CHARNECO*

Certified Public Accountant

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Hato Rey, PR 00919

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**INDEPENDENT AUDITOR'S REPORT**

Mayor of the Municipality of Patillas  
Patillas, Puerto Rico

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Patillas**, Puerto Rico, as of and for the year ended June 30, 2005, which collectively comprise the **Municipality of Patillas** basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

I have conducted my 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of each major fund and the aggregate remaining fund information and governmental activities of the **Municipality of Patillas**, Puerto Rico, as of June 30, 2005, and the respective changes in financial position, thereof the respective budgetary comparison for the general fund 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 September 20, 2005 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. The additional report is not an integral part of a governmental auditing standard audit in considering the results of the audit the separate report should be read in conjunction with the auditor's report considering the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities 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.

As described in Note 1, on July 1, 2004, **the Municipality** implemented a new financial reporting model required by GASB Statement No. 34, (GASB No. 34), *Basic Financial Statements – And Management's Discussion and analysis-for State and Local Governments*. In conjunction with the adoption of BASB No. 34, the Municipality has also adopted the following pronouncements: (1) BASB Statement No. 37-*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, (2) GASB Statement No.38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The Management's Discussion and Analysis, on pages 1 through 7, are not a required part of the basic financial statements but is supplementary information required by the Accounting Principles Generally Accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audited the information and express no opinion on it.

**San Juan, Puerto Rico**  
**September 20, 2005**

The stamp number  
was affixed to the  
original of this report

**2108515**

*Juan A. Feliciano*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2007



**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

<u>ASSETS</u>	<b>Governmental Activities</b>
Cash and investments	\$ 2,025,979
Cash with fiscal agent and other	1,043,291
Accounts receivable federal government	906,749
Capital assets	10,658,921
<b>Total assets</b>	<b>14,634,940</b>
<b>LIABILITIES AND FUND EQUITY</b>	
Liabilities:	
Accounts payable and accrued liabilities	972,800
Due to government entity	323,615
Deferred revenue	420,058
Noncurrent liabilities:	
Due within one year	679,638
Due in more than one year	5,495,281
<b>Total liabilities</b>	<b>7,891,392</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	
Restricted for:	4,484,002
Debt service	1,043,291
Special and other fund	278,855
Capital project fund	491,445
Unrestricted	445,955
<b>Total net assets</b>	<b>\$ 6,743,548</b>

See notes to financial statement.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (expense) revenue and change in Net Assets in Net Assets Governmental Activities
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	
<b>EXPENDITURES:</b>					
General government	\$ 3,984,323	\$ (57,686)	\$ (281,369)	\$ (939,369)	\$ 2,705,899
Public safety	808,006	-	-	-	808,006
Public works	3,114,047	-	-	-	3,114,047
Capital projects	2,091,176	-	(2,091,176)	-	-
Health	532,860	-	-	-	532,860
Culture and recreation	655,466	-	-	-	655,466
Other expenditures	688,351	-	-	-	688,351
Education and training	846,273	-	-	-	846,273
Debt service:					
Interest	205,628	-	-	-	205,628
Total governmental activities	<u>12,926,130</u>	<u>(57,686)</u>	<u>(2,372,545)</u>	<u>(939,369)</u>	<u>9,556,530</u>
<b>GENERAL REVENUES</b>					
Property taxes					\$ 1,631,440
Municipal licenses tax					404,383
Licenses, permits and fines					324,031
Intergovernmental revenues					4,220,764
Interest revenues					58,946
Other revenues					1,983,154
Total general revenues					<u>8,622,718</u>
Changes in net assets					(933,812)
Net assets at beginning of year					<u>7,677,360</u>
Net assets at end of year					<u>\$ 6,743,548</u>

See notes to financial statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2005**

<b>ASSETS</b>	<b>General Fund</b>	<b>2004 Bond Issue Fund</b>	<b>HUD Programs</b>	<b>Head Start Programs</b>	<b>Debt Service Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 320,641	\$ 62,494	\$ 192,148	\$ 76,640	\$ -	\$ 1,374,056	\$ 2,025,979
Cash with fiscal agent and other	-	-	-	-	1,043,291	-	1,043,291
Accounts receivable federal government	-	-	640,598	253,278	-	12,873	906,749
Due from other funds	1,225,345	-	36,790	-	-	102,898	1,365,033
<b>Total assets and other debits</b>	<b>\$ 1,545,986</b>	<b>\$ 62,494</b>	<b>\$ 869,536</b>	<b>\$ 329,918</b>	<b>\$ 1,043,291</b>	<b>\$ 1,489,827</b>	<b>\$ 5,341,052</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 253,460	\$ -	\$ 471,185	\$ 52,062	\$ -	\$ 196,093	\$ 972,800
Due to special revenue funds	102,898	-	36,790	-	-	-	139,688
Due to general fund	-	-	130,986	183,961	-	910,398	1,225,345
Due to government entity	323,615	-	-	-	-	-	323,615
Deferred revenue	420,058	-	-	-	-	-	420,058
<b>Total liabilities</b>	<b>1,100,031</b>	<b>-</b>	<b>638,961</b>	<b>236,023</b>	<b>-</b>	<b>1,106,491</b>	<b>3,081,506</b>
<b>Fund balances</b>							
Reserve for debt services	-	-	-	-	1,043,291	-	1,043,291
Encumbrances	21,425	-	-	-	-	-	21,425
General Fund	424,530	-	-	-	-	-	424,530
Special and other funds	-	-	94,336	93,895	-	90,624	278,855
Capital project fund	-	62,494	136,239	-	-	292,712	491,445
<b>Total fund balances</b>	<b>445,955</b>	<b>62,494</b>	<b>230,575</b>	<b>93,895</b>	<b>1,043,291</b>	<b>383,336</b>	<b>2,259,546</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,545,986</b>	<b>\$ 62,494</b>	<b>\$ 869,536</b>	<b>\$ 329,918</b>	<b>\$ 1,043,291</b>	<b>\$ 1,489,827</b>	<b>\$ 5,341,052</b>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds  
 Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:  
     Accrued compensated absence  
     Liability for claims and judgments  
     Health insurance debt  
     Bonds payable

\$ 695,355	
96,213	
1,011,814	
4,371,537	
<b>\$ 6,174,919</b>	<b>6,174,919</b>
	<b>\$ 6,743,548</b>

Total net assets of governmental activities

See notes to financial statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund	2005 Bond issue Fund	HUD Programs	Head Start Program	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes	\$ 1,316,047	\$ -	\$ -	\$ -	\$ 315,393	\$ -	\$ 1,631,440
Municipal license tax	404,383	-	-	-	-	-	404,383
Licenses, permits and fines	324,031	-	-	-	-	-	324,031
Intergovernmental revenues	4,220,764	-	-	-	-	615,835	4,836,599
Rent of properties	57,686	-	-	-	-	-	57,686
Interest income	42,494	-	-	-	16,452	-	58,946
Other revenues	1,983,154	-	-	-	-	-	1,983,154
Federal financial award	-	-	2,372,545	899,890	-	323,534	3,595,969
<b>Total revenues</b>	<b>8,348,559</b>	<b>-</b>	<b>2,372,545</b>	<b>899,890</b>	<b>331,845</b>	<b>939,369</b>	<b>12,892,208</b>
<b>EXPENDITURES</b>							
<b>Current:</b>							
General government	2,781,388	-	718,627	-	-	460,710	3,960,725
Public safety	760,078	-	-	-	-	-	760,078
Public works	2,762,712	-	-	-	-	-	2,762,712
Health	527,222	-	-	-	-	-	527,222
Capital projects	-	-	1,680,077	-	-	942,013	2,622,090
Culture and recreation	614,753	-	-	-	-	-	614,753
Other Expenditures	688,351	-	-	-	-	-	688,351
Education and training	-	-	-	846,273	-	-	846,273
<b>Debt service:</b>							
Principal retirement	-	-	-	-	298,750	-	298,750
Interest and fiscal charges	-	-	-	-	202,277	-	202,277
<b>Total expenditures</b>	<b>8,134,504</b>	<b>-</b>	<b>2,398,704</b>	<b>846,273</b>	<b>501,027</b>	<b>1,402,723</b>	<b>13,283,231</b>
Excess of revenues over (under) expenditures	214,055	-	(26,159)	53,617	(169,182)	(463,354)	(391,023)
<b>Other financing source (uses):</b>							
Transfer in (out) to debt service fund	(157,366)	-	-	-	157,366	-	-
Interest expenditure	-	-	-	-	(13,706)	-	(13,706)
Net bond issued debt	-	385,000	-	-	-	-	385,000
Bond Expenditure	-	(355,789)	-	-	-	-	(355,789)
<b>Total other financing source (uses)</b>	<b>(157,366)</b>	<b>29,211</b>	<b>-</b>	<b>-</b>	<b>143,660</b>	<b>-</b>	<b>15,505</b>
Excess of revenues and other sources over (under) expenditures and other uses	56,689	29,211	(26,159)	53,617	(25,522)	(463,354)	(375,518)
Fund balance June 30, 2004	1,795,811	32,853	206,009	-	1,068,813	846,690	3,950,176
Prior period adjustment	(1,406,545)	430	50,725	40,278	-	-	(1,315,112)
<b>Fund balance June 30, 2005</b>	<b>\$ 445,955</b>	<b>\$ 62,494</b>	<b>\$ 230,575</b>	<b>\$ 93,895</b>	<b>\$ 1,043,291</b>	<b>\$ 383,336</b>	<b>\$ 2,259,546</b>

See notes to financial statements

*Handwritten notes:*  
 289,066  
 1,406,545  
 802,057  
 624,488

*Handwritten notes:*  
 1,852,500  
 09/07/2006

**MUNICIPALITY OF PATILLAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2005**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds \$ (375,488)  
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	530,914	
Less: current year depreciation	<u>(469,212)</u>	
		61,702

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Net bond proceeds of bond issue	(385,000)	
Principal payments	(298,750)	
Bond expenditure	355,789	
Transfer to debt service	<u>(157,366)</u>	
		(485,327)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (134,699)

Change in net assets of governmental activities \$ (933,812)

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)**  
**GENERAL FUND AND DEBT SERVICE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 298,686	\$ 298,686	\$ 298,686	\$ -
Municipal license tax	400,000	400,000	404,382	4,382
Intergovernmental revenues	4,197,803	4,197,803	4,220,767	22,964
Licenses, permits and fines	586,000	586,000	324,031	(261,969)
Rent of properties	23,280	23,280	57,686	34,406
Interest income	25,000	25,000	42,494	17,494
Other revenues	210,500	1,302,181	2,661,482	1,359,301
Other sources	1,010,416	1,010,416	1,060,362	49,946
Property tax (debt service)	380,322	380,322	331,845	(48,477)
<b>Total revenues</b>	<b>\$ 7,132,007</b>	<b>\$ 8,223,688</b>	<b>\$ 9,401,735</b>	<b>\$ 1,178,047</b>
<b>EXPENDITURES:</b>				
Current:				
General government	\$ 2,289,390	\$ 2,765,641	\$ 2,582,780	\$ 182,861
Public safety	842,624	799,648	760,078	39,570
Public Work	2,393,017	2,888,092	2,782,512	105,580
Health	522,058	529,210	527,222	1,988
Culture and recreation	485,428	640,655	614,753	25,902
Other Expenditure	41,780	42,732	157,733	(115,001)
Transfer to debt service	177,388	177,388	157,366	20,022
Principal and interest	380,322	380,322	343,661	36,661
<b>Total expenditures</b>	<b>\$ 7,132,007</b>	<b>\$ 8,223,688</b>	<b>\$ 7,926,105</b>	<b>\$ 297,583</b>
Excess of revenues over (under) expenditures			<b>\$ 1,475,630</b>	<b>\$ 1,475,630</b>
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 9,401,735
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(721,331)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				<b>\$ 8,680,404</b>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 7,926,105
Differences - budget to GAAP:				
Non budgeted expenditures				280,614
Budgeted expenditures included prior year				271,446
Other financial resources transferred to debt service				157,366
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				<b>\$ 8,635,531</b>

See notes to budgetary comparison schedule.

See notes to financial statements.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**GENERAL ORGANIZATION**

The **Municipality of Patillas** was founded in 1811. 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 assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality of Patillas** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) institute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

**The Municipality's** financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The Municipality of Patillas was required to implement this Standard for the fiscal year ended June 30, 2004.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**b. Financial Reporting Entity**

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14.)*

**The Municipality's** management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2005 nor for the year then ended.

**c. Basic Financial Statements-GASB Statement No. 34**

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

**d. Basis of Presentation**

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination or major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

*Major Funds*

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

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

Head Start – Program Funds – The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund are specified by municipal ordinances of federal and state statutes.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

d. **Basis of Presentation (continuation)**

*Other Funds* (not mayor funds) – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

e. **Basis of Accounting**

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

***Measurement Focus, Basis of Accounting***

*Government-wide Financial Statements* – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Funds Financial Statement* – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

*Governmental Fund Types / Governmental Activities* – 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.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

f. **Encumbrances**

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders; contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

g. **Budgetary Data**

**The Municipality** follows these procedures, which are in accordance with the municipal law; in establishing the budgetary date reflected in the basic financial statements.

- (1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

**Budgetary Data** (Continuation)

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

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, the Municipality readjusted its original budget of the General Fund Balance by \$1,091,681 from current year resources increase.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**h. Deposits**

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

**i. Inventories**

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

**j. Capital Assets**

*Fund Financial Statements*

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

*Government Wide Financial Statement*

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value a time they are received by **the Municipality** and is capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**k. Vacation and Sick Leave and Other Compensated Absences**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation 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 or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Asset.

**i. Insurance**

**The Municipality** has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other 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 designated agency to obtain the necessary insurance coverage for **the Municipality**.

**j. Restricted Assets**

*Investments and Certificates*

Certain proceeds of as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

*Cash with fiscal agent*

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**k. Reservations of Fund Balance**

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. **The Municipality** has the following reservations of fund balance:

- *Encumbrances* – Represent future expenditures under purchase order, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.
- *Special Revenue Fund* – Represent net assets available to finance specified outlays.
- *General Fund* – Represent net assets available not required to be accounted in another fund.
- *For other Purposes* – Represent mainly resources set aside for use in federal and state grant programs accounted for in the special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

**l. Claims and Judgments**

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

**m. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of asses 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 those estimates.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**n. Totals Column (Memorandum Only) Governmental Funds Statement**

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have been made.

**2. PROPERTY TAXES**

The "Centro de Recaudación de Ingresos Municipales"(CRIM) is responsible for the assessment of all real and personal property located within the **Municipality of Patillas** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purpose and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service, which is accounted for through the debt service fund (See note 2 ).

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer became the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The 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 advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$43,001 during 2005.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2005 and outstanding debt from 2005. The resulting receivable is presented as a deferred revenue in the general fund for Fund Financial Statement and as a revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

*Accounts Receivable:*

Amortization through collections of property taxes by the CRIM	
07-01-04 – 06-30-05	\$ (4,799,474)
Advance received, 07-01-04 – 06-30-05	4,842,475
Due to CRIM - 2005	\$ 43,001

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**3. DEPOSITS**

**The Municipality's** cash and investments at June 30, 2005, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit if due date is not more than 90 days, the certificate considered as cash equivalents.

**4. CONCENTRATION OF CREDIT RISK**

**The Municipality** maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to property safeguard such funds. Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

**5. MUNICIPAL LICENSE TAXES**

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 FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the maximum tax payable is \$025. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of nex year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as diferred revenues.

**6. INTERFUND TRANSACTIONS**

*Due From/To Other Funds (Fund Financial Statement)*

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balance are as follows:

Funds	Due From	Due To
General	\$1,225,345	\$ -
Head Start Program	-	183,961
Other funds	-	910,398
HUD Programs	-	130,986
	<b>\$1,225,345</b>	<b>\$1,225,345</b>

The inter-fund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

**7. INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenue consit primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax" payments from certain "quasipublic" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, aong others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**8. DUE FROM (DUE TO) GOVERNMENTAL ENTITIES**

As of June 30, 2005 balances from (due to) governmental entities of the general fund consists of the following:

<b>Name</b>	<b>Due to</b>
Centro de Recaudación de Ingresos Municipales (CRIM)	\$ 43,001
Electric Puerto Rico Power Authority	95,472
Puerto Rico Water and Sewer Authority	4,816
Puerto Rico Retirement System	57,454
Puerto Rico Department of Treasury	94,291
United States Treasury	9,082
Puerto Rico Telephone Co.	19,499
	<b>\$ 323,615</b>

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**9. CAPITAL ASSETS**

**Fund Financial Statements**

*The Municipality charged costs of capitalizable outlays as expenditures categories in the Governmental Fund Financial Statements.*

<b>Governmental activities:</b>	Balance 6/30/2004	Additions	Retire- ments	Balance 6/30/2005
Capital assets, not being depreciated:				
Land	\$ 272,974	\$ -	\$ -	\$ 272,974
Construction in progress	2,050,409	1,364,789	-	3,415,198
Total capital assets not being depreciated	<u>2,323,383</u>	<u>1,364,789</u>	<u>-</u>	<u>3,688,172</u>
Capital assets, being depreciated				
Buildings and building improvements	9,773,840	-	-	9,773,840
Equipment	636,012	-	-	636,012
Vehicles	3,242,161	-	-	3,242,161
Total capital assets being depreciated	<u>13,652,013</u>	<u>-</u>	<u>-</u>	<u>13,652,013</u>
Less accumulated depreciation for:				
Buildings and building improvements	3,332,063	-	166,497	3,498,560
Equipment	2,427,319	-	257,308	2,684,627
Vehicles	452,670	-	45,407	498,077
Total accumulated depreciation	<u>6,212,052</u>	<u>-</u>	<u>469,212</u>	<u>6,681,264</u>
Total capital assets being depreciated, net	<u>7,439,961</u>	<u>-</u>	<u>(469,212)</u>	<u>6,970,749</u>
Governmental activities capital assets, net	<u><b>\$ 9,763,344</b></u>	<u><b>\$ 1,364,789</b></u>	<u><b>\$ (469,212)</b></u>	<u><b>\$ 10,658,921</b></u>

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

<b>Governmental activities:</b>	
General government	\$23,598
Public safety	47,928
Public works	351,335
Culture and recreation	40,713
Health	5,638
Total depreciation expense-governmental activities	<u><b>\$469,212</b></u>

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Government Wide Financial Statements**

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	5-25	\$300
Furniture and Fixture	5-10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$1
Infrastructure	60	\$1
Improvements	20-40	\$1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**10. CHANGES IN GENERAL LONG-TERM DEBT (continued)**

*General in General Long – Term Debt*

The principal long-term obligation of the Municipality is obligation bonds issue to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

*The following is a summary of bonds of the Municipality of Patillas for year ended June 30, 2005.*

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$4,271,937	\$ 395,000	\$288,750	\$4,378,187

*General Obligation Bonds:*

Description	Original Amount	Interest Rate	Balance 06-30-05	Due Date	Due within One Year
Bonds Series 1987	\$525,000	5.0%	\$ 136,000	01-01-2009	\$ 31,000
Bonds Series 2004	\$200,000	2.7%-5.6%	125,000	07-01-2008	30,000
Bonds Series 2004	\$255,000	2.7%-5.0%	240,000	07-01-2026	5,000
Bonds Series 2004	\$2,740,000	2.7%-5.0%	2,595,000	07-01-2026	55,000
Bonds Series 1986	\$2,500,000	5.5% to 4.3%	210,000	07-01-2026	105,000
Bonds Series 1988	\$275,000	8.0%	17,187	07-01-2026	13,750
Bonds Series 1997	\$400,000	8.0%	300,000	07-01-2016	15,000
Bonds Series 2004	\$250,000	5.0% - 6.5%	200,000	07-01-2009	35,000
Bonds Series 2004	\$180,000	5.0% - 6.0%	160,000	07-01-2010	25,000
Bonds Series 2004	\$395,000	3.2775% to 5%	395,000	07-01-2011	50,000
			<b>\$4,378,187</b>		<b>\$364,750</b>

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

*The annual requirements to amortize all bonded debt outstanding as June 30, 2005 follows:*

Year Ending	Principal	Interest	Total
2006	\$ 364,750	\$ 205,000	\$569,750
2007	366,437	201,810	568,247
2008	275,000	180,822	455,822
2009	287,000	169,068	456,068
2010	230,000	53,509	283,509
Subsequent years	2,855,000	1,437,869	4,292,869
	<b>\$4,378,187</b>	<b>\$6,626,265</b>	<b>\$6,626,265</b>

**The Municipality** is subjected to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be issued to 10% of the assessed valuation of the property located at the **Municipality of Patillas**.

**11. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the genera obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained fro the Following:

Property taxes	\$331,845
General funds	157,366
Debt service	11,816
	<b>\$501,027</b>

*Expenditures for the year 2004-2005 were as follows:*

Principal	\$298,750
Interest	202,277
	<b>\$501,027</b>

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**12. RETIREMENT SYSTEM**

**Plan Description**

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee Retirement System of the Government of Puerto Rico and its instrumentalities (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 retirements 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 at G.P.O. Box 42005, San Juan Puerto Rico. 00940.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**OLD PLAN**

**Eligibility**

**Pension Benefits**

Age 55 and 30 years  
Of service

75% of average highest compensation  
during any years of credited service

Under 55 and 30 ears  
Of service

65% of average highest compensation  
during any 3 years of credit service

Participant in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NEW PLAN**

**Eligibility**

Age 65 with 10 years  
of service

**Pension Benefits**

1.5% of average compensation during  
the final 5 years of credited services  
multiplied by the numbers of years  
credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

**Funding Policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2005 amounted approximately \$5,215,227 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$135,114 and \$125,866 for reform 2000. The Municipality is required to contribute 9.275% of gross salary for the amount of \$159,438 and \$141,015.

**Municipality** is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be issued to 10% of the assessed valuation of the property located at the **Municipality of Patillas**.

**Actuarial Valuation**

The actuarial determined present value of benefits accrued as of July 1, 2003 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Actuarial Valuation (continuation)**

Net assets of the system consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- |  |   |
|--|---|
| a) Interest rate                                   | 8.5% a year   |
| b) Salary increases                                | 5.0% year   |
| c) Mortality                                       | GAM'83 Mortality Table set forward two years  |
| d) Termination                                     | Medium Turnover Table commensurate with anticipated experience.                                       |
| e) Disability                                      | 65% of Third Railroad Retirement Table Rates.   |
| f) Retirement age                                  | Graded scale of retirement ages commensurate with anticipated experience.                             |
| g) Proportion of participants with spouses         | 80% of participants assumed to be married, with wives assumed to be four years younger than husbands. |
| h) Number of employees electing high contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement.                     |
| i) Cost-of-living adjustments                      | 3% every third year   |

**13. LONG TERM LIABILITIES**

**Compensated Absences**

Account for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method. In which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

*The changes in Compensated absences for the year ended June 30, 2005 are as follows:*

Governmental activity	June 30, 2004	Net Increase	June 30, 2005	Due within One year
Compensated Absences	<b>\$451,935</b>	<b>\$243,420</b>	<b>\$695,355</b>	<b>\$ 215,325</b>

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**14. LEASES**

*Operating Leases*

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2005, were approximately \$103,023 included in all funds.

**15. CLAIMS AND CONTINGENCIES**

*Contingencies*

As pr 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, 2002 the amount billed by HIA to the Municipality amounted to \$1,011,814. 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 fund financial statements.

On July 1, 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 would be earned on the additional lottery games. During the year the Municipality pay to Health Insurance of PR Administration \$295.067.

*Federal Programs*

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, the Municipality may be required to reimburse to the grantor agency. Accordingly, the Administrations compliance with applicable grant requirements will be established at some future date. Nevertheless, the Municipality's management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**CLAIMS AND CONTINGENCIES (continued)**

*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 has not issued a final report related to the financial operations of the Municipality for the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operation by the Comptroller's Office.

**16. PRIOR PERIOD ADJUSTMENTS**

**General Fund**

Ordinance number 33 to increase of the income account by \$678,298 adjusted the general fund balance of prior year and the net effect of account payable canceled and accounts receivable recorded from prior years.

**JUANA FELICIANO CHARNECO**

Certified Public Accountant

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Eleanor Roosevelt  
Hato Rey, PR 00919

Tel. (787) 879-4433  
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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 accompanying financial statements of the **Municipality of Patillas, Puerto Rico**, as of and for the year ended June 30, 2005, and have issued an unqualified report thereon dated September 20, 2005. 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 provision 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 September 20, 2005.

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

San Juan, Puerto Rico  
September 20, 2005

The stamp number  
was affixed to the  
original of this report

2108516

*Juan A. Feliciano*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2007



**JUAN A. FELICIANO CHARNECO**

Certified Public Accountant

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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, 2005. 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 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, 2005. 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 2005-01, 2005-02 and 2005-03.

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 Municipal Assembly, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties.

**San Juan, Puerto Rico**  
**September 20, 2005**

The stamp number  
was affixed to the  
original of this report

2108517

*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2007



**MUNICIPALITY OF PATILLAS, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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	14-871	RQ46-EO-57-001/002	\$ 383,441
Passed-through Commonwealth of Puerto Rico	14-228	AB-2004	218,775
Commissioners Office of Municipal Affairs	14-228	FC-2004	62,500
	14-228	AB-2003	38,770
	14-228	FC-2003	488,408
	14-228	FE-2003	4,580
	14-228	AB-2002	168,134
Community Planning and Development	14-228	FC-2002	48,943
Community Development Block Grant (State Program)	14-228	2001	288,382
	14-228	2000	26,100
	14-228	1999	335,850
	14-228	1998	930
	14-228	1998	183,619
	14-228	1997	148,859
	14-228	1996	192
	14-228	1993	1,221
			<u>2,015,263</u>
			<u>2,398,704</u>
UDAG (Program Income)	14-221	-	55,740
<u>U.S. Department of Health and Human Services:</u>			
Passed-through Governors Office for Human Development:			
Administration for Children and Families			
Child Care	93-575	-	58,686
Head Start	93-600	-	761,646
Child Care Food Program			25,941
			<u>846,273</u>
<u>U.S. Federal Emergency Management Agency:</u>			
Passed-through Emergency Management State and Local Assistance			
FEMA (Lluvia noviembre)	83-534	1247	97,777
FEMA (Tormenta Jeanne)	83-534	1552	61,524
			<u>159,301</u>
<u>U.S. Department of Agriculture</u>			
Passed-through Commonwealth of Puerto Rico, Department of Education			
Child Care Food Program (USDA)	10-558		1,930
			<u>\$ 3,461,948</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, 2005**

(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 modified accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. 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 96% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

(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:

Description	HUD Programs	Head Start Programs	Other funds	Total
Federal Programs Expenditures	\$2,398,704	\$846,273	\$ 216,971	\$3,406,208
State & Municipal Expenditures	-	-	1,185,752	1,241,492
Total Expenditures	\$2,398,704	\$846,273	\$1,402,723	\$4,647,700

**MUNICIPALITY OF PATILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005**

**A. Summary of Audit results**

**Financial Statements**

Type of auditor's issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

\_\_\_ Yes \_\_ X \_\_\_ No

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

\_\_\_ Yes \_\_ X \_\_\_ No  
None reported

Noncompliance material to financial statements noted?

\_\_\_ Yes \_\_ X \_\_\_ No

**Federal Awards**

Internal control over mayor programs:

Material weakness(es) identified?

\_\_\_ Yes \_\_ X \_\_\_ No

Reportable condition(s) identified not

Considered being material weaknesses?

\_\_\_ Yes \_\_ X \_\_\_ 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

\_\_ X \_\_\_ Yes \_\_\_ No

*Identification of Major Programs*

CFDA Number(s)	Name of Federal Program or Cluster
14,871	Section 8 – Voucher
93.600	Head Start
14-228	SBGP

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

500,000

Auditee qualified as low-risk audit

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**

**U.S. Department of Health and Human Services  
Head Start  
Passed-through Office of Children and Families Administration  
CFDA No. 93-600  
Grant No. 02-CH-0483/03  
Year ended June 30, 2005**

Ref. No. Finding / Noncompliance

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2005-01 Statement of Condition and Criteria

It was noted in my test of compliance does United States Treasury, Cash Management Requirements, establish not complying with the criteria. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Children and Families 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.

**MUNICIPALITY OF PATILLAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2005**  
**(continued)**

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

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

Auditor's Recommendation

The Municipality establishes 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 evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

**MUNICIPALITY OF PATILLAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2005**  
**(continued)**

**U.S. Department of Agriculture**  
**Child Care Food Program**  
**Passed-through Department of Education**  
**CFDA No. 10-558**  
**Grant No. None identified**  
**Year ended June 30, 2005**

Ref. No. Finding / Noncompliance

-----  
2005-02 Statement of Condition and Criteria

It was noted in my test of compliance, is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Agriculture 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.

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

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

Auditor's Recommendation

The Municipality establishes 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 evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

**MUNICIPALITY OF PATILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005  
(continued)**

**Department of Housing and Urban Development  
Passed-through Governor's Office (OCAM)  
CFDA No. 14-228  
Grant No. Community Development  
Block Grant (State Program) SBGP  
Year ended June 30, 2005**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2005-03	<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., 24 CFR, Section 570.503 Uniform Administrative Requirements.</p> <ol style="list-style-type: none"> <li>1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs.</li> <li>2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest.</li> <li>3. Effective controls and accountability for funds, property and other assets.</li> </ol> <p>To established procedures to comply with Financial and Program Management Standards of funds of the SBGP Program. It was noted during my audit that Municipality does not maintain proper accounting records.</p> <p><u>Cause</u> The Municipality does not comply with the Financial and Program Management System Standards.</p>	-0-

Effect

The Municipality does not maintain and adequate procedures for the Administration of funds from SBGP Program.

Auditors Recommendation

The Municipality must establish 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 correct the accounting system after June 30, and before the audit was complete.

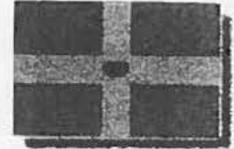
**MUNICIPALITY OF PATILLAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2005**

2004 – Finding No. 1: U.S. Department of Federal Emergency Management Agent  
Passed-through Commonwealth of PR Representative (C.A.R.)  
CFDA No. 83-544  
Grant – FEMA – 1501 DR-PR  
Year ended June 30, 2004  
**Finding was corrected**

2004 – Finding No. 2: 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, 2004  
**Finding was corrected**



ESTADO LIBRE ASOCIADO DE PUERTO RICO  
**MUNICIPIO DE PATILLAS**  
**DEPARTAMENTO DE FINANZAS**  
 APARTADO 698  
 PATILLAS, PUERTO RICO



**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2005**  
 (continue)

Ref. No. <u>Finding /Corrective Action</u> 2005-01 <u>Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>  On or before  end of 2005-06 Fiscal year.
<u>Statement of Condition:</u>  The Head Start Program Standards for financial management System.	
<u>Corrective Action Planned:</u> The Municipalities 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> Mr. Narciso Velázquez Rodriguez, Finance Director	
Ref. No. <u>Finding /Corrective Action</u> 2005-02 <u>Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>  On or before  end of 2005-06 fiscal year
<u>Statement of Condition:</u>  The Child Care Food Program cash balance over \$5,000 for periods end longer than 3 days	
<u>Corrective Action Planned:</u> The Child Care Food Program Administrator Established adequate procedures to control and use in an effective manner, federal funds.	
<u>Person Responsible:</u> Mr. Narciso Velázquez Rodríguez, Finance Director	

*Narciso Velázquez Rodríguez*

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2005  
(continue)**

Ref. No.	<u>Finding /Corrective Action Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>
2005-03	<p><u>Statement of Condition:</u> The SBGP Program Management System Standards.</p> <p><u>Corrective Action Planned:</u> The SBGP Program Administrator Established adequate and correct the finding before the audit report was issued.</p> <p><u>Person Responsible:</u> Mr. Narciso Velázquez Rodríguez, Finance Director</p>	<p>On or before end of 2005-06 fiscal year</p>



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

RECIBIDO  
UNIDAD DE CORREO  
APR 12 PM 3:17

**OFICINA DE FINANZAS**

January 30, 2006

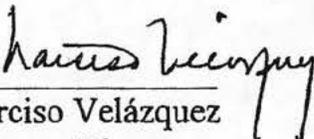
Federal Audit Clearinghouse  
1201 E. 10th Street  
Jeffersonville, IN 47132

Dear Sir:

Enclosed four copies of the Financial Statement (Single Audit) for the year ended June 30, 2005 of the Municipality of Patillas.

If you need more information do not hesitate to contact me at (787) 839-4120, ext.243.

Cordially,

  
Narciso Velázquez  
Finance Director

FORM **SF-SAC**  
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

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

**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

<b>1. Fiscal period ending date for this submission</b> <table border="1" style="width:100%"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> </tr> <tr> <td align="center">06</td> <td align="center">/ 30</td> <td align="center">/ 2005</td> </tr> </table> Fiscal Period End Dates Must Be in 2004, 2005, or 2006	Month	Day	Year	06	/ 30	/ 2005	<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit
Month	Day	Year					
06	/ 30	/ 2005					

<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months	<b>4. FEDERAL GOVERNMENT USE ONLY</b> Date received by Federal clearinghouse
---	--

**5. Auditee Identification Numbers**

**a. Primary Employer Identification Number (EIN)**  

6	6	-	0	4	3	3	4	9	2
---	---	---	---	---	---	---	---	---	---

**b. Are multiple EINs covered in this report?**    1  Yes    2  No

**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.**

**d. Data Universal Numbering System (DUNS) Number**  

<input type="text"/>	-	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
----------------------	---	----------------------	----------------------	----------------------	----------------------

**e. Are multiple DUNS covered in this report?**    1  Yes    2  No

**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.**

**6. AUDITEE INFORMATION**

**a. Auditee name**  
MUNICIPALITY OF PATILLAS

**b. Auditee address (Number and street)**  
PO BOX 698  
City  
PATILLAS  
State    ZIP + 4 Code  
PR    00723 -

**c. Auditee contact Name**  
NARCISO VELAZQUEZ  
Title  
FINANCE DIRECTOR

**d. Auditee contact telephone**  
(787) 839 - 4160

**e. Auditee contact FAX**  
(787) 271 - 4618

**f. Auditee contact E-mail**

**7. AUDITOR INFORMATION (To be completed by auditor)**

**a. Auditor name**  
JUAN A. FELICIANO CHARNECO

**b. Auditor address (Number and street)**  
SAN LUIS 151  
City  
ARECIBO  
State    ZIP + 4 Code  
PR    00612 -

**c. Auditor contact Name**  
JUAN A. FELICIANO CHARNECO  
Title  
CERTIFIED PUBLIC ACCOUNTANT

**d. Auditor contact telephone**  
(787) 879 - 4433

**e. Auditor contact FAX**  
(787) 880 - 1402

**f. Auditor contact E-mail**

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

Signature of certifying official  
*Narciso Velazquez*

Date  
Month    Day    Year  
01    30    2006

Printed Name of certifying official  
NARCISO VELAZQUEZ

Printed Title of certifying official  
FINANCE DIRECTOR

**g. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor  
*Juan A. Feliciano Charneco*

Date  
Month    Day    Year  
1    27    06

**PART I**

**FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

Mark either: 1  Unqualified opinion OR  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion

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

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

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

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

**PART II**

**FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 500,000

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1  Yes 2  No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No

7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

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

- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input checked="" type="checkbox"/> Agriculture                         | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input checked="" type="checkbox"/> Health and Human Services     | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 97 <input type="checkbox"/> Homeland Security                        | 08 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input type="text"/>   |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input type="text"/>   |

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

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

- the Federal Audit Clearinghouse archives
- and, if not marked above, the Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting packages . . . . 4

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 - VOUCHER	\$ 383,441 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 2,015,263 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	C	2005-03
1	4 .221	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	UDAG (PROGRAM INCOME)	\$ 55,740 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE	\$ 58,686 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8	3 .544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FEMA	\$ 159,301 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE FOOD PROGRAM (USDA)	\$ 1,930 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		C	2005-02
9	3 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START	\$ 787,587 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	C	2005-01
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				\$ 3,461,948 .00	<i>IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS</i>				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act

- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds

- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance

- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

<sup>5</sup> N/A for NONE

**PART I** **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.												f. List the multiple DUNS covered in the report.											
1	N	/	A	21	-	41	-					1	N	/	A	21	-	-					
2	-			22	-	42	-					2	-			22	-	-					
3	-			23	-	43	-					3	-			23	-	-					
4	-			24	-	44	-					4	-			24	-	-					
5	-			25	-	45	-					5	-			25	-	-					
6	-			26	-	46	-					6	-			26	-	-					
7	-			27	-	47	-					7	-			27	-	-					
8	-			28	-	48	-					8	-			28	-	-					
9	-			29	-	49	-					9	-			29	-	-					
10	-			30	-	50	-					10	-			30	-	-					
11	-			31	-	51	-					11	-			31	-	-					
12	-			32	-	52	-					12	-			32	-	-					
13	-			33	-	53	-					13	-			33	-	-					
14	-			34	-	54	-					14	-			34	-	-					
15	-			35	-	55	-					15	-			35	-	-					
16	-			36	-	56	-					16	-			36	-	-					
17	-			37	-	57	-					17	-			37	-	-					
18	-			38	-	58	-					18	-			38	-	-					
19	-			39	-	59	-					19	-			39	-	-					
20	-			40	-	60	-					20	-			40	-	-					

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

\* \* \* Informe de resultados de TX inmediata ( Mar.14. 2006 8:21AM ) \* \* \*

1)  
2)

Fecha	Hora	Destino	Modo	Tiempo Pág.	Result	Código de usuario	Carp Nº
Mar. 14.	8:18AM	7878801402	G3TES	3'21	P. 4 OK		5082

# : TX por Lotes  
 V : Memoria  
 : Estándar  
 : Reducción

C : Confidencial  
 L : Trans. Retardada  
 D : Detalle  
 H : Almacenado/S. doc

\$ : Transfer  
 @ : Repetición  
 F : Fina  
 \* : PC Fax

P : Polling  
 E : ECM  
 U : Superfina



**UNITED STATES DEPARTMENT OF COMMERCE**  
**Economics and Statistics Administration**  
**U.S. Census Bureau**  
National Processing Center  
Jeffersonville, IN 47132-0001

March 20, 2006

31 MAR 2006

MUNICIPALITY OF PATILLAS  
FINANCE DIRECTOR  
PO BOX 698  
PATILLAS, PR 00723

Dear Official:

The Federal Audit Clearinghouse recently reviewed your Office of Management and Budget (OMB) Circular A-133 submission for the fiscal year ending 6/30/05. Our review revealed the following necessary components are missing:

The revised Form SF-SAC for Fiscal Year Ending Dates on or between January 1, 2004 and December 31, 2005

Due to the missing component(s), your audit cannot be accepted as complete and processed. Please submit the required component(s) and a copy of this request within thirty days to the following address:

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

If you have any questions concerning this letter, please call us toll-free at 1-888-222-9907.

Federal Audit Clearinghouse  
U. S. Census Bureau

~~cc: Auditor~~

201888 2005  
660433492 000 - M7024/25

MESSAGE CONFIRMATION

APR-03-2006 09:17 AM MON

FAX NUMBER : 7878399546  
NAME : FINANZA MUN PATILLAS

NAME/NUMBER : 17878801402  
PAGE : 1  
START TIME : APR-03-2006 09:16AM MON  
ELAPSED TIME : 00' 26"  
MODE : STD ECM  
RESULTS : [ O.K ]



UNITED STATES DEPARTMENT OF COMMERCE  
Economic and Statistics Administration  
U.S. Census Bureau  
National Processing Center  
Jeffersonville, IN 47132-0001

March 20, 2006

31 MAR 2006

MUNICIPALITY OF PATILLAS  
FINANCE DIRECTOR  
PO BOX 698  
PATILLAS, PR 00723

Dear Official:

The Federal Audit Clearinghouse recently reviewed your Office of Management and Budget (OMB) Circular A-133 submission for the fiscal year ending 6/30/05. Our review revealed the following necessary components are missing:

The revised Form SF-SAC for Fiscal Year Ending Dates on or between January 1, 2004 and December 31, 2004

Due to the missing component(s), your audit cannot be accepted as complete and processed. Please submit the required component(s) and a copy of this request within thirty days to the following address:

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

If you have any questions concerning this letter, please call us toll-free at 1-888-222-9907.

Federal Audit Clearinghouse  
U. S. Census Bureau

~~cc: Auditors~~

201888 2005  
660433492 000 - M7024/25

*Velez: Favor de revisar esta  
notificación.  
gracias  
María*



UNITED STATES DEPARTMENT OF COMMERCE  
Economics and Statistics Administration  
U.S. Census Bureau  
National Processing Center  
Jeffersonville, IN 47132-0001

March 20, 2006

31 MAR 2006

MUNICIPALITY OF PATILLAS  
FINANCE DIRECTOR  
PO BOX 698  
PATILLAS, PR 00723

Dear Official:

~~The Federal Audit Clearinghouse recently reviewed your Office of Management and Budget (OMB) Circular A-133 submission for the fiscal year ending 6/30/05. Our review revealed the following necessary components are missing:~~

The revised Form SF-SAC for Fiscal Year Ending Dates on or between January 1, 2004 and December 31, 2005

Due to the missing component(s), your audit cannot be accepted as complete and processed. Please submit the required component(s) and a copy of this request within thirty days to the following address:

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

If you have any questions concerning this letter, please call us toll-free at 1-888-222-9907.

Federal Audit Clearinghouse  
U. S. Census Bureau

~~cc: Auditors~~

Velez: Favor de revisor esta  
notificación.

gracias  
Velez

201888 2005  
660433492 000 - M7024/25

7004 0750 0001 6762 4050

JEFFERSONVILLE, IN 47132

U.S. Postal Service™  
**CERTIFIED MAIL™ RECEIPT**  
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**OFFICIAL USE**

Postage	\$ 8.25	UNIT ID: 0723
Certified Fee	2.40	
Return Receipt Fee (Endorsement Required)	1.85	
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$ 12.50	Postmark Here

Clerk: DGFVZ0  
02/02/06

Sent To Federal Audit Clearinghouse  
 Street, Apt. No. or PO Box No. 1201 E. 10th Street  
 City, State, ZIP+4 Jeffersonville, IN 47132

PS Form 3800, June 2002 See Reverse for Instructions

7005 2570 0000 5914 2760

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Postage	\$	
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$ 5.44	

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

PS Form 3800, June 2002 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

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

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  
 X Allan J. Hinton Agent  
 Addressee

B. Received by (Printed Name)  
Allan J. Hinton

C. Date of Delivery  
3-20-06

D. Is delivery address different from item 1?  Yes  
 No  
 If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes