

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE UTUADO**

**AUDITORIA 2001-02**

**30 DE JUNIO DE 2002**

02-5292-C

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO**

**SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2002**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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Public Accountants  
Management Consulting  
Services Division

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor  
and Municipal Assembly  
Municipality of Utuado  
Utuado, Puerto Rico

We have audited the accompanying general-purpose financial statements of the Municipality of Utuado, as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Utuado' management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As described in Note 6, the Municipality of Utuado has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance or such all group amounting to \$14,240,633.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Utuado as of June 30,

2002, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2002, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

San Juan, Puerto Rico  
September 20, 2002

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 1812090 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

<u>Assets</u>	<u>Governmental Fund Types</u>			<u>Account Groups</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>General Fixed Asset</u>	<u>General Long Term Debt</u>	<u>Memorandum</u>
Cash in bank (Note 2)	\$ 3,070,280	\$2,517,069	\$ -	\$ -	\$ -	\$ 5,587,349
Cash with fiscal agent (Note 2)		1,614,741	1,318,232			2,932,973
Accounts receivables:						
Due from other agencies (Note 7)	179,691	63,327				243,018
Due from other funds (Note 8)	416,340	799,728				1,216,068
Property and equipment (Note 6)				14,240,633		14,240,633
Amount available in debt service fund (Note 2)					1,318,232	1,318,232
Amount to be provided for retirement of general long-term debt					4,750,211	4,750,211
Amount to be provided through property tax collected for payment of related property tax advances (Note 10)					54,296	54,296
Amount to be provided for payment of accrued vacation and sick leave (Note 1)					1,002,146	1,002,146
<b>Total assets</b>	<b>\$ 3,666,311</b>	<b>\$4,994,865</b>	<b>\$ 1,318,232</b>	<b>\$14,240,633</b>	<b>\$ 7,124,885</b>	<b>\$31,344,926</b>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)  
JUNE 30, 2002**

<b>Liabilities and Fund Equity</b>	<b>Governmental Fund Types</b>			<b>Account Groups</b>		<b>Total</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>General Fixed Asset</b>	<b>General Long Term Debt</b>	<b>Memorandum</b>
<b>Liabilities</b>						
Account payable and accrued liabilities	\$ 359,721	\$ 383,442	\$ -	\$ -	\$ -	\$ 743,163
Due to other funds (Note 8)	799,728	416,340				1,216,068
Due to other agencies (Note 9)	1,018,917					1,018,917
Deferred revenues (Note 4)	421,448	2,829,010				3,250,458
Accrued vacations and sick leave (Note 1)					1,002,146	1,002,146
General long-term debts (Note 10)					6,042,143	6,042,143
Property tax advances (Note 10)					54,296	54,296
Claims and judgements (Note 12)					26,300	26,300
<b>Total liabilities</b>	<b>2,599,814</b>	<b>3,628,792</b>	<b>-</b>	<b>-</b>	<b>7,124,885</b>	<b>13,353,491</b>
<b>Commitments and Contingencies (Notes 12, 13 and 14)</b>						
<b>Fund Equity</b>						
Investment in general fixed assets				14,240,633		14,240,633
Fund balance						
Reserved for encumbrances	197,876					197,876
Reserve for debt services			1,318,232			1,318,232
Undesignated equity	868,621	1,366,073				2,234,694
<b>Total fund equity</b>	<b>1,066,497</b>	<b>1,366,073</b>	<b>1,318,232</b>	<b>14,240,633</b>	<b>-</b>	<b>17,991,435</b>
<b>Total liabilities and fund equity</b>	<b>\$3,666,311</b>	<b>\$4,994,865</b>	<b>\$ 1,318,232</b>	<b>\$ 14,240,633</b>	<b>\$ 7,124,885</b>	<b>\$31,344,926</b>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES-ALL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<b>Governmental Fund Types</b>			<b>Total</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Memorandum</b>
<b>REVENUES</b>				
Property taxes (Note 3)	\$ 1,771,336	\$ -	\$ 715,407	\$ 2,486,743
Municipal license taxes (Note 4)	608,518			608,518
Licenses and permits	451,901			451,901
Charges for service and rents	41,742			41,742
Inter-governmental revenues (Note 5):				
Federal grants and contributions		9,109,754		9,109,754
State contributions	4,903,469			4,903,469
Interest, fines, and penalties	171,755		18,396	190,151
Other revenues	959,312			959,312
Total revenues	<u>8,908,033</u>	<u>9,109,754</u>	<u>733,803</u>	<u>18,751,590</u>
<b>EXPENDITURES</b>				
Municipal council	127,247			127,247
Offices:				
Administrative Services	266,724			266,724
Mayor	522,606			522,606
Departments:				
Civil Defense	687,189			687,189
Finance	2,196,885			2,196,885
Public Works	2,380,368	3,142,838		5,523,206
Recreation	356,348			356,348
Personnel	553,720			553,720
Capital outlays		1,303,539		1,303,539
Collection of property taxes applied to advances (Note 15)	1,272,123			1,272,123
Secretary	214,941			214,941
Welfare		6,894,356		6,894,356
General Government	265,566			265,566

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES-ALL FUND TYPES (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			Total
	General	Special Revenue	Debt Service	Memorandum
Debt services.				
Principal retirement (Note 10)	\$ -	\$ -	\$ 480,323	\$ 480,323
Interest payments (Note 10)			190,351	190,351
Total expenditures	<u>8,843,717</u>	<u>11,340,733</u>	<u>670,674</u>	<u>20,855,124</u>
Excess of (deficiency) of revenues over expenditures	<u>64,316</u>	<u>(2,230,979)</u>	<u>63,129</u>	<u>(2,103,534)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds		2,015,000		2,015,000
Advances of property taxes (Note 3)	1,272,123			1,272,123
Operating transfer-in	137,415		447,460	584,875
Operating transfer-out	(447,460)		(137,415)	(584,875)
Total other financing sources (uses)	<u>962,078</u>	<u>2,015,000</u>	<u>310,045</u>	<u>3,287,123</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>1,026,394</u>	<u>(215,979)</u>	<u>373,174</u>	<u>1,183,589</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>40,103</u>	<u>1,582,052</u>	<u>945,058</u>	<u>2,567,213</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 1,066,497</u>	<u>\$ 1,366,073</u>	<u>\$ 1,318,232</u>	<u>\$ 3,750,802</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES (Notes 1 and 15)</b>						
Property taxes	\$1,612,844	\$1,771,336	\$ 158,492	\$ 442,180	\$ 715,407	\$ 273,227
Municipal license taxes	508,000	608,518	100,518			-
Licenses and permits	555,000	451,901	(103,099)			-
Charges for service and rents	20,000	41,742	21,742			-
Inter-governmental revenues:						-
State contributions	5,131,789	4,903,469	(228,320)			-
Interest, fines, and penalties	18,000	309,170	291,170		18,396	18,396
Other revenues	262,981	482,931	219,950			-
Total revenues	<u>8,108,614</u>	<u>8,569,067</u>	<u>460,453</u>	<u>442,180</u>	<u>733,803</u>	<u>291,623</u>
<b>EXPENDITURES (Notes 1 and 15)</b>						
Municipal council	149,889	127,247	22,642			
Offices:						
Administrative services	270,762	266,724	4,038			
Mayor	617,427	522,606	94,821			
Departments:						
Civil Defense	690,943	687,189	3,754			
Finance	3,164,528	2,711,980	452,548			
Public Works	2,604,203	2,380,368	223,835			
Recreation	371,188	356,348	14,840			
Personnel	555,187	553,720	1,467			
Secretary	232,500	214,941	17,559			
Debt service; principal and interest payment		-	-	442,180	360,629	81,551
Total expenditures	<u>8,656,627</u>	<u>7,821,123</u>	<u>835,504</u>	<u>442,180</u>	<u>360,629</u>	<u>81,551</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>(548,013)</u>	<u>747,944</u>	<u>199,931</u>	<u>-</u>	<u>373,174</u>	<u>373,174</u>
<b>OTHER FINANCE SOURCES</b>						
Reprogrammed funds	548,013	548,013				
Total other finance sources	<u>548,013</u>	<u>548,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 199,931</u>	<u>\$ 199,931</u>	<u>\$ -</u>	<u>\$ 373,174</u>	<u>\$ 373,174</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

The Municipality of Utuado, Puerto Rico (Municipality) was founded in 1739. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**b. Summary of Significant Accounting Policies**

The accounting policies of the Municipality are in accordance with the accounting principles generally accepted in the United States of America applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant policies:

**1) Fund Accounting**

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

a) **Governmental Funds**

i. **General Fund**

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

ii. **Special Revenue Funds**

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. **Debt Service Funds**

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

b) **Fiduciary Funds**

**Trust and Agency Funds**

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

c) Account Groups

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

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-term Debt Account Group

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

d) Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. General Fund appropriations for recurrent and ordinary functions of the Municipality.

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

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

9) Reporting Entity

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

**Manifestations of Oversight Responsibility**

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

**Accountability for Fiscal Matters**

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

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

**Scope of Public Service  
Special Financing Relationships**

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

10) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

during the reporting period. The most significant estimates consist of the contribution received from the Electric Power Authority of Puerto Rico and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

**11) Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
34	Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments	2002-03
37	Reporting Model Omnibus	2002-03
38	Note Disclosures	2002-03
39	Determining Whether Certain Organizations are Components Units	2003-04

The impact of these statements on the Municipality's financial statements has not yet been determined.

**2. CASH AND CASH WITH FISCAL AGENT**

**a. Cash in Bank and Concentration Risk**

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in two banks located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The following is a summary of the total insured by collateral

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	<u>Total</u>	<u>Insured by FDIC</u>	<u>Insured by Collateral in Treasury Department</u>
Popular Bank	\$2,038,087	\$100,000	\$1,938,087
Santander Bank	800,126	100,000	700,126
Oriental Bank	<u>2,749,136</u>	<u>100,000</u>	<u>2,649,136</u>
Total	<u>\$5,587,349</u>	<u>\$300,000</u>	<u>\$5,287,349</u>

**b. Cash with Fiscal Agents**

An additional special tax of 1.03% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2002, the balance of cash retained by the Government Development Bank amounted to \$1,318,232.

The bond issued by the Municipality is administered by the Government Development Bank with a method of escrow system. At June 30, 2002, the balance of cash retained by the Government Development Bank available for the acquisition of real property and federal program amounted to \$1,614,741.

**3. PROPERTY TAXES**

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.08% for real property and 6.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	< .20%>	< .20%>
 Total	 <u>8.08%</u>	 <u>6.08%</u>

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the Municipal Revenues Collection Center.

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF UTUADO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

**4. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2002. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Utuado, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Utuado are as follows:

Financing institution	=	1.50%
Other organizations:	=	.40%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$421,448, corresponding to the next fiscal year municipal license.

**5. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF UTUADO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**6. GENERAL FIXED ASSETS**

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in its future.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$ 9,335,532
Vehicles, equipment, and furniture	<u>4,905,101</u>
Total general fixed assets	<u>\$14,240,633</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**7. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Víctimas del crimen	\$ -	\$ 9,388	\$ 9,388
Department of Education	-	7,809	7,809
CRIM	158,492	-	158,492
A. E. E.	21,199	-	21,199
Head Start	-	23,555	23,555
O.C.A.M.	-	21,089	21,089
SBGP	<u>-</u>	<u>1,486</u>	<u>1,486</u>
 Total	 <u>\$179,691</u>	 <u>\$63,327</u>	 <u>\$243,018</u>

**8. DUE FROM (TO) OTHER FUNDS**

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

The due from and due to other fund balances as of June 30, 2002, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
<b>General Fund</b>		
Special Fund	\$ 416,340	\$ 799,728
<b>Special Revenue Fund</b>		
General Fund	<u>799,728</u>	<u>416,340</u>
	 <u>\$1,216,068</u>	 <u>\$1,216,068</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**9. DUE TO OTHER AGENCIES**

The composition of this account is as follows:

	<b>General Fund</b>
Water and Sewer Authority	\$ 145,839
Retirement System	23,087
Puerto Rico Telephone Company	41,519
Municipality of Arecibo	779,266
Labor Department	29,206
	<b>\$1,018,917</b>

**10. GENERAL LONG-TERM DEBTS**

The general long-term debts' transactions as of June 30, 2002 are as follows:

Balance July 1, 2001	\$2,937,455
Additions	2,556,982
Adjustments	1,108,625
Payments	( <u>480,323</u> )
Balance June 30, 2002	<b>\$6,122,739</b>

General long-term debt obligations at June 30, 2002 are as follows:

**Bonds**

\$1,310,000 series of 2001, payable in annual installments of \$50,000 to \$145,000 until July 1, 2016, interest from 5% to 8%.

\$1,310,000

\$165,000 series of 1986, payable in annual installments of \$3,000 to \$13,000 until January 1, 2011, interest at 5.750%.

90,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

\$130,000 series of 1987, payable in annual installments of \$3,000 to \$10,000 until January 1, 2012, interest at 5.875%.	\$ 76,000
\$535,000 series of 1995, payable in annual installments of \$10,000 to \$55,000 until July 1, 2014, interest from 4.70% to 7.250%.	430,000
\$330,000 series of 1996, payable in annual installments of \$5,000 to \$25,000 until July 1, 2019, interest from 4.70% to 6.630%.	<u>290,000</u> <u>2,196,000</u>

**Notes Payable**

\$1,405,000 series of 1985, payable in annual installments of \$30,000 to \$135,000 until July 1, 2006; interest from 6% to 8.5%.	575,000
\$400,000 series of 1997, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016; interest from 6% to 8%.	345,000
\$235,000 series of 1997, payable in annual installments of \$5,000 to \$20,000 until July 1, 2016; interest from 6% to 8%.	205,000
\$585,000 series of 1998, payable in annual installments of \$70,000 to \$100,000 until July 1, 2005; interest from 4.865% to 6%.	370,000
\$705,000 series of 2000, payable in annual installments of \$80,000 to \$125,000 until July 1, 2008; interest from 5% to 7%.	<u>705,000</u> <u>2,200,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**Special Fund (Lottery)**

\$500,000 series of 1987, payable in annual installments of \$25,000 until July 1, 2007, interest at 8%.	\$ <u>131,250</u>
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**Other Long-term Debts**

Property tax advance prior year payable in annual installments of \$6,787 approximately until 2010.	54,296
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Payment plan to Treasury Department, including claims and judgements payments, payable in annual installments of \$2,100 approximately until 2003.	26,300
--	--------

Payment plan to Labor Department, payable in annual installments of \$7,314 with a final payment of \$7,332 until 2002.	36,570
---	--------

Payment plan to Water and Sewer Authority, payable in annual installments of \$120,000 with a final payment of \$50,000 until 2002.	410,000
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State Health Insurance Plan (ASES)	<u>1,068,323</u> <u>1,595,489</u>
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\$6,122,739

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The annual requirements for the amortization of general long-terms at June 30, 2002, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2003	\$ 806,221
2004	765,551
2005	800,451
2006	756,451
2007	632,454
2008-2012	1,186,611
2013-2017	1,100,000
2018-2022	<u>75,000</u>
	<u>\$6,122,739</u>

As described in Note 3, the Municipality levies an additional special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

**11. RETIREMENT PLAN**

**a. Plan Description**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF UTUADO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2002 was \$278,652. The Municipality's payroll for employees covered by ERS was \$3,004,334. The Municipality total payroll for all employees was \$7,188,679.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940

**12. CONTINGENCIES**

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**13. COMMITMENTS**

The Municipality of Utuado had several outstanding or planned construction projects as of June 30, 2002. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$783,477.

**14. LEASES**

Leasing arrangements with the Municipality as lessor are as follows:

- a. Total income from leases during the year ended June 30, 2002 was approximately \$41,742.
- b. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**15. BUDGETARY COMPARISONS**

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

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

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by generally accepted accounting principles.
- c. Under generally accepted accounting principles, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles basis	\$8,908,033	\$8,843,717
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	197,876

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Revenues</u>	<u>Expenditures</u>
Less prior year encumbrances recorded as expenditure on the GAAP basis	\$ -	(\$ 130,241)
Plus advances of property taxes recorded as revenue on the budgetary basis	1,272,123	-
Plus transfer in/out	137,415	447,460
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	( 1,272,123)	( 1,272,123)
Non-budgeted funds recorded as revenue or expense on the budgetary basis.	( <u>476,381</u> )	( <u>265,566</u> )
Budgetary basis	<u>\$8,569,067</u>	<u>\$7,821,123</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily the same fiscal year of the Municipality. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

**16. MUNICIPAL SOLID WASTE LANDFILL CLOSURE**

The Municipality discontinued the operation and ceased to accept solid waste on 1993 in the landfill. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure. Since 1989, the Municipality has a project to construct the facilities through cleaning the place, acquire additional land to the lessor, and others works in order to prepare the place for the close of the landfill. The project has four phases from the year program 1989, 1990, 1993 and

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1995. The total approved funds was \$909,935 for the four phases. As of June 30, 2002, the total cost was incurred.

The Municipality must comply with some regulations of the Environmental Quality Control Board. Into these regulation, the Municipality is in process to comply with other regulations. Actually, the costs are financed by federal funds.

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Direct programs:		
Section 8-Rental Certificate Program Existing and Reserve	14.857	\$ 50,202 <sup>07%</sup>
Section 8-Rental Voucher Program	14.855	694,270 <sup>7%</sup>
Pass-through State - Commissioner Office of Municipal Affairs Community Development Block Grant Small Cities Program - SBGP	14.228	607,258 <sup>6%</sup>
Subtotal U.S. Department of HUD		
Pass-through State - Department of Families Emergency Shelter Grant Project	14.231	27,655 <sup>10%</sup>
Subtotal U.S. Department of HUD		<u>1,379,385</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Head Start	93.600	<u>5,278,542</u>
Subtotal U. S. Department of HHS		<u>5,278,542</u> <sup>39%</sup>
<b>U.S. Department of Agriculture (USDA)</b>		
Pass-through State - Child and Adult Food Care Program (CFDA)	10.558	<u>349,101</u> <sup>3%</sup>
Subtotal U. S. Department of USDA		<u>349,101</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO (CONTINUED)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U. S. Department of Commerce</b>		
Grant for Public Works and Economic Development	11.300	\$ <u>102,646</u> <sup>10/0</sup>
Subtotal U. S. Department of Commerce		<u>102,646</u>
<b>U.S. Federal Emergency Management Agency (FEMA)</b>		
Public Assistance Grant	83.545	<u>1,822,125</u> <sup>2090</sup>
Subtotal U. S. FEMA		<u>1,822,125</u>
<b>TOTAL</b>		<u>\$8,931,799</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Utuado's federal award programs is presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A reconciliation of amount included in the Schedule of Expenditures of Federal Awards and the General Purpose financial Statements (Special Revenue Fund) follows:

Total federal expenditures per schedule	\$ 8,931,799
Total non-federal expenditures accounted for the Special Revenue Fund of the General Purpose Financial Statements	<u>2,408,934</u>
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>\$11,340,733</u>



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

To the Honorable Mayor  
and Municipal Assembly  
Municipality of Utuado  
Utuado, Puerto Rico

We have audited the financial statements of the Municipality of Utuado as of and for the year ended June 30, 2002, and have issued our report thereon dated September 20, 2002, which was qualified because insufficient audit evidence exists to support Municipality of Utuado' disclosures with respect to the general fixed assets balances. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

## Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Utuado' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Utuado' ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as items 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all matters reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Utuado, in a separate letter dated September 20, 2002.

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

San Juan, Puerto Rico  
September 20, 2002

The stamp 1812091 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ACCOUNTING SYSTEM**

We noted that the Municipality of Utuado is not keeping an accounting system as required by accounting principles generally accepted in the United States of America at present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchase orders and contracts are not adequate; because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

**Recommendation**

We recommend the Municipality of Utuado that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide the following.

That the Municipality's operations are accounted for through several separate funds and account groups, accounting in each of them the related assets, liabilities, and equity and other balances. The individual funds should be summarized in a combined financial statements by fund category. The Municipality should use the general purpose financial statements based on the following fund and accounts groups:

**a. Governmental Funds**

Governmental funds are used to finance most of the governmental functions. The sources and uses of resources available are systematically registered through the statement of changes in fund balances and not through the determination of net income. The different types of governmental funds are as follows:

1) General

This is the operational fund for the Municipality. It accounts for all financial resources except those required to be accounted for in another funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

2) Special revenue

Is used to account for the proceeds of specific revenue sources (other than expendable trust or mayor capital projects) that are legally restricted for expenditure for specified purposes.

3) Debt service

Is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest and related costs.

4) Capital project

Is used to account for financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are registered as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances.

So, the Capital Project Funds can reflect an excess of expenditures over revenues and other resources.

**b. Proprietary Fund**

Is used to account for operations financed and operated similar to business, whose main objective is the determination of net income. The main objective of this type of fund is to match income with expenses and deriving profits. Depreciation accounts are also used in this type of fund.

**c. Trust and Agency Fund**

Is used to account for assets held by the Municipality Agency, in the trustee's capacity or as agent whose main responsibility is to ascertain that those assets are disposed of as prescribed by the individual or other governmental unit.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**d. Account Groups**

Accounts groups are not funds. The same should be used to establish accounting controls and to account for General Fixed Assets and General Long-term Debt.

1) General Fixed Assets accounts group

Is used to provide accounting over general fixed assets, except those already recorded in the proprietary and Trust Funds.

2) General Long-term Debt accounts group

Is used to provide accounting control over General Municipal Long-term Debt; except those accounted in the Proprietary and Trust Funds.

The Municipality's accounting system should provide for the segregation of the encumbrances from accounts payable. Encumbrances represent commitments related with a service to be received or a good to be acquired. This amount should be accumulated in an account named Fund Balance Reserved for Encumbrances at the time the purchase order is issued. The amount of Encumbrances should be reserved for each fund balance since no bilateral agreement exists. The accounts payable and accrued expenses should be recorded when the debt is incurred and the amount is determinable.

**2. FIXED ASSETS**

During the audit we noted that:

- a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.
- b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

- d. The disposals of Municipality property were not recorded in the property subsidiary ledger nor in the general ledger control account.

**Recommendation**

To improve the internal controls in the area of property, the following procedures should be implemented by the Property Custodian in coordination with the Finance Director:

- a. It is recommended to take a physical inventory once a year. Any discrepancies found should be investigated and proper action taken.
- b. The Department of Property must perform periodical surprise physical observations and/or verification of the related assets to determine their existence and condition.
- c. The Department of Property must record the expenditures for financing charges of issued long-term debts.
- d. It is recommended to reconcile periodically the expenditures recorded by the Finance Department and the amount recorded by the Department of Property. Any discrepancies found should be investigated.



**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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CPA Marco Antonio Rivera Zúñiga  
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Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

To the Honorable Mayor  
and Municipal Assembly  
Municipality of Utuado  
Utuado, Puerto Rico

Compliance

We have audited the compliance of Municipality of Utuado with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Municipality of Utuado' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Utuado' management. Our responsibility is to express and opinion on Municipality of Utuado' compliance based on our audit.

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

In our opinion, Municipality of Utuado 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, 2002. However, the results of our 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 item 02-1.

### Internal Control over Compliance

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

Our 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 do 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

San Juan, Puerto Rico  
September 20, 2002

The stamp 1812092 was affixed  
to the original of this report.



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

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Utuado.
- b. There were no reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Utuado were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Utuado express an unqualified opinion.
- f. Audit findings relation to the major federal awards programs for Municipality of Utuado are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
  - Section 8 - Cluster Program
  - Head Star - CFDA No. 93.600
  - Child and Adult Food Care Program - CFDA No. 10.558
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Utuado was determined to be a high-risk audit.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

See Schedule of Reportable Conditions and Recommendations on pages 34 to 37.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p><b>Head Star CFDA No. 93.600</b></p>	<p><b>Condition 02-1</b></p> <p>The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.</p> <p><u>Cause</u></p> <p>The program does not have adequate control procedures for the cash management.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest costs on the excess cash on hand, which would be paid from local funds.</p> <p><u>Criteria</u></p> <p>Federal Regulations require that grantee will conform to the standards of timing and amounts as applicable to advances by federal agencies. Amount requested should be limited to the program's immediate needs.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Recommendation</u></p> <p>The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement.</p>	
	<p><b>Condition 02-2</b></p> <p>We noted the bidding procedures do not comply with the grant requirement. For example, the letters that should be send to all bidders, in order to communicate the final determination.</p>	\$ <u>-0-</u>
	<p><u>Criteria</u></p> <p>The Federal Regulation code, number 45 CFR 92.20 (a), establishes on part C that the Agency had the responsibility of paid and accountability the vouchers' funds in accordance with the state laws. The Chapter VIII, Part III, Section 12 (2) to the Basic Rules Regulation for Municipalities of Puerto Rico established that the final decision of the members of bidding board is notifies in a writing document for all bidders.</p>	
	<p><u>Cause</u></p> <p>The Municipality does not comply with the requirement establish on the Federal Regulation Code of bidding procedures.</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Effect</u></p> <p>This condition avoids all the participants would have the opportunities to may impugn the determination.</p> <p><u>Recommendation</u></p> <p>We recommend to the Municipality that comply with the requirements for bidding procedures.</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF UTUADO  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The Municipality of Utuado has not prior year audit findings.

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**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**EXHIBIT I**

## **CORRECTIVE ACTION PLAN**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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*Estado Libre Asociado de Puerto Rico*  
*Gobierno Municipal de Utuado*  
*Departamento de Finanzas*

*Alan J. González Cancel*  
*Alcalde*  
*Angel G. Medina Díaz*  
*Director*

**CORRECTIVE ACTION PLAN**

December 5, 2002

Cognizant or Oversight Agency for Audit:

Municipality of Utuado respectfully submits the following corrective action plan for the year ended June 30, 2002

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2002

The findings from the June 30, 2002 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**Finding 02-1: Head Start - CFDA 14.228**

Reportable Condition: See Condition 02-1

Recommendation

The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement.

*P. O. Box 190, Utuado, Puerto Rico 00641*  
*Tel. 787-894-3505, Fax 787-814-1527*

Action Taken

The program allows us to request in advance an amount that will cover the subsequent expenses of payroll, fringe benefits, child consultant, rent, and children transportation; we, also, have 90 days after we close our fiscal year to pay our accounts. Normally, the check that will cover these expenses is received during the month of may and most of the time we have to request a waiver to pay these accounts after the due date. This approval arrives in August with a new due date. Until these approvals do not arrive, the program cannot pay any of the accounts. These are the reasons why during any audit intervention, this finding of excess of cash appears. The program makes every effort to maintain our cash flow as low as possible.

**Finding 02-2: Head Start - CFDA 93.600**

Reportable Condition: See Condition 02-2

Recommendation

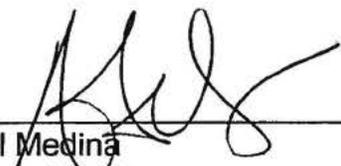
We recommend to the Municipality that comply with the requirements for bidding procedures.

Action Taken

The Municipality complied with the requirement of notifying in the adjudication letter for all bidders the final decision of the member of bidding board.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. Angel Medina at (787) 894-3505.

Sincerely yours,

  
\_\_\_\_\_  
Angel Medina  
Finance Director