

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

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

OFIC. DEL COMISIONADO
ASUNTOS MUNICIPALES

04 FEB 24 PM 1:18

RECIBIDO
UNIDAD DE CORREO

Quintero - 1511

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

**JUAN A. FELICIANO CHARNECO
CERTIFIED PUBLIC ACCOUNTANT**

**MUNICIPALITY OF UTUADO, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2003**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management Discussion and Analysis	3-7
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Balance sheet Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances Of Governmental Funds to the Statement of Activities	12
Notes to financial statement	13-34

**PART II - GOVERNMENTAL AUDITING STANDARDS AND
OMB CIRCULAR A-133 REPORTS**

Schedule of Expenditures of Federal Awards.	35
Notes to Schedule of Federal Financial Assistance.....	36
Statement of revenues, expenditures and changes in fund balance Budget and actual (budget basis) general fund	37
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	38-39
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	40-41
Schedule of Findings and Questioned Costs.....	42-46
Summary Schedule of Prior Audit Findings	47
Corrective Action Plan	48-49

Juan A. Feliciano Charneco
CERTIFIED PUBLIC ACCOUNTANT

406 Tnt. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

INDEPENDENT AUDITOR'S REPORT

Mayor of the Municipality of Utuado
Utuado, 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 Utuado**, Puerto Rico, as of and for the year ended June 30, 2003, which collectively comprise the **Municipality of Utuado** 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 Controller 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.

The financial statements referred to above present fairly, in all material respects, the respective financial position of the general and capital projects fund and governmental activities of the Municipality of Utuado, Puerto Rico, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

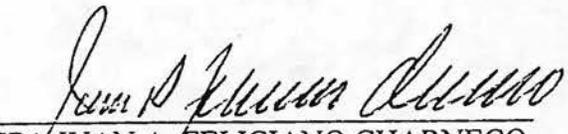
In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the business type activities, debt service and the aggregate remaining fund information of the **Municipality of Utuado**, Puerto Rico, as of June 30, 2003, and the respective budgetary comparison for the General Fund and Debt Service Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the **Municipality of Utuado** adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – And Management's Discussion and analysis-For State and Local Governments*; as of and for the year ended June 30, 2003. This result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis information, on pages 3 through 7, and the Budgetary Comparison Schedule – General Fund on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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
December 19, 2003

The stamp number 1942633
was affixed to the
original of this report.


CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2004



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Utuado (the "Municipality"), 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, 2003. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2002-2003 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 Primary Government exceeded its liabilities at the close of the current fiscal year by \$32,625,599 (net assets). Of this amount \$4,362,361 are unrestricted. Net assets may be used to meet the Municipality's current operations.
- As June 30, 2003 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$601,878 an decrease of \$464,619 in comparison with the prior year.
- Loans principal payments were \$426,250 during fiscal year 2002-03.

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.

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

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 assets be valuated 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.

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 \$32,625,599 at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

Statement of Net Assets As of June 30, 2003

Current and other assets	\$9,933,917
Capital assets	31,371,635
Total assets	41,305,552
Current and other liabilities	2,504,957
Long-term liabilities	6,174,996
Total liabilities	8,679,953
Net assets:	
Invested in capital assets, net related debt	27,810,884
Restricted	452,354
Unrestricted	4,362,361
Total net assets	\$32,625,599

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, 2003

General revenue	\$6,493,031
Program revenue	11,411,026
Total revenue	17,904,057
Expenses	8,542,550
Governmental activities	11,411,026
Total expenses	19,953,576
Change in net assets	\$2,049,519

The most significant changes in this statement were as follows:

Total revenues increased by approximately \$4,153,416 as compared to prior year.

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 government 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 has easy access to near towns by the highway and some , wholesale, retail stores, financial institutions, restaurants, among other has been established.



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

Alan J. González Cancel
Alcalde

Limarie Vélaz González
Directora

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.


Limarie Vélaz González
Finance Director

**MUNICIPALITY OF UTUADO, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2003**

		Governmental Activities
<u>ASSETS</u>		
Cash and investments	\$	8,294,579
Cash with fiscal agent and other		1,079,439
Accounts receivable federal government		15
Accounts receivable government		144,835
Capital Assets		31,371,635
Total assets	\$	<u>40,890,503</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$	859,916
Matured bond and interest payable		640,528
Noncurrent liabilities:		
Due to government entity		125,379
Deferred revenue		464,085
Due in more than one year		6,174,996
Total liabilities		<u>8,264,904</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt		27,810,884
Restricted for debt service		452,354
Unrestricted		4,362,361
Total Net Assets	\$	<u>32,625,599</u>

See notes to financial statement.

**MUNICIPALITY OF UTUADO, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and change in Net Assets Governmental Activities	
		Charges for Services	Capital Grants and Contributions		Operating Grants and Contributions
EXPENDITURES:					
Current:					
General government	\$ 9,098,695	\$ (607,998)	\$ (101,622)	\$ (5,623,980)	\$ (2,765,095)
Public safety	3,576,933	-	-	-	(3,576,933)
Public work	789,685	-	-	-	(789,685)
Health	5,722,406	(4,878,987)	-	-	(843,419)
Culture and recreation	552,773	-	-	-	(552,773)
Interest on long-term debt	213,084	(198,439)	-	-	(14,645)
Total governmental activities	<u>\$ 19,953,576</u>	<u>\$ (5,685,424)</u>	<u>\$ (101,622)</u>	<u>\$ (5,623,980)</u>	<u>\$ (8,542,550)</u>
GENERAL REVENUES					
Property taxes					\$ 471,913
Municipal licenses tax					680,962
Intergovernmental revenues					5,012,494
Interest income					114,877
Other Revenues					212,785
Total general revenues					<u>6,493,031</u>
Changes in net assets					(2,049,519)
Net assets at beginning of year					<u>34,675,118</u>
Net assets at end of year					<u>\$ 32,625,599</u>

See notes to financial statements.

MUNICIPALITY OF UTUADO, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

ASSETS	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 2,565,126	\$ 419,352	\$ 3,295,723	\$ -	\$ 2,014,378	\$ 8,294,579
Cash with fiscal agent and other	-	-	-	1,079,439	-	1,079,439
Receivable volume business	-	-	-	-	-	-
Accounts receivable federal government	-	-	-	-	15	15
Due from general fund and other funds	415,049	-	-	-	1,483,342	1,898,391
Accounts receivable government	125,275	6,117	-	13,443	-	144,835
Total assets and other debits	<u>\$ 3,105,450</u>	<u>\$ 425,469</u>	<u>\$ 3,295,723</u>	<u>\$ 1,092,882</u>	<u>\$ 3,497,735</u>	<u>\$ 11,417,259</u>

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable and accrued liabilities	\$ 456,067	\$ 425,469	\$ 4,117	\$ -	\$ -	\$ 885,653
Due to special revenue funds and other	1,483,342	-	-	-	415,049	1,898,391
Matured bond and interest payable	-	-	-	640,528	-	640,528
Due to government entity	125,379	-	-	-	-	125,379
Deferred revenue	438,784	-	-	-	25,301	464,085
Total liabilities	<u>\$ 2,503,572</u>	<u>\$ 425,469</u>	<u>\$ 4,117</u>	<u>\$ 640,528</u>	<u>\$ 440,350</u>	<u>\$ 4,014,036</u>
Fund balances						
Reserve for debt services	\$ -	\$ -	\$ -	\$ 452,354	\$ -	\$ 452,354
Encumbrances	112,500	-	-	-	-	112,500
General Fund	489,378	-	-	-	-	489,378
Special revenue fund	-	-	-	-	1,752,234	1,752,234
Capital Project fund	-	-	3,291,606	-	1,330,888	4,622,494
Total fund balances	<u>601,878</u>	<u>-</u>	<u>3,291,606</u>	<u>452,354</u>	<u>3,083,122</u>	<u>7,428,960</u>
Total liabilities and fund balance	<u>\$ 3,105,450</u>	<u>\$ 425,469</u>	<u>\$ 3,295,723</u>	<u>\$ 1,092,882</u>	<u>\$ 3,523,472</u>	

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	31,371,635
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	542,001
Account payable to water and service authority	300,164
Health insurance debt	1,595,489
Accounts payable government	122,295
Mortgage loan payable	3,560,751
Advances from CRIM	54,296
Total long-term liabilities	<u>(6,174,996)</u>
Total net assets of governmental activities	<u>\$ 32,625,599</u>

See notes to financial statement

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

	GOVERNMENTAL FUND TYPES					Total Governmental Funds
	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Other Funds	
REVENUES						
Property taxes	\$ 471,913	\$ -	\$ -	\$ 187,571	\$ -	\$ 659,484
Municipal license tax	680,962	-	-	-	-	680,962
Licenses ,permits and fines	528,254	-	-	-	-	528,254
Intergovernmental revenues	5,012,494	-	3,084,100	-	2,969,383	11,065,977
Rent of properties	79,744	-	-	-	-	79,744
Interest income	114,877	-	-	10,868	-	125,745
Other revenues	212,785	-	-	-	-	212,785
Federal financial award	-	4,878,987	653,078	-	3,419,400	8,951,465
Total revenues	7,101,029	4,878,987	3,737,178	198,439	6,388,783	22,304,416
EXPENDITURES:						
Current:						
General government	4,102,812	-	101,622	-	4,688,495	8,892,929
Public safety	2,714,250	-	-	-	-	2,714,250
Public work	789,685	-	-	-	-	789,685
Health	730,227	4,878,987	-	-	-	5,609,214
Capital projects	-	-	920,180	-	784,803	1,704,983
Culture and recreation	447,247	-	-	-	-	447,247
Debt service:	-	-	-	-	-	-
Principal retirement	-	-	-	414,000	-	414,000
Interest and fiscal charges	-	-	-	213,084	-	213,084
Total expenditures	8,784,221	4,878,987	1,021,802	627,084	5,473,298	20,785,392
Excess of revenues over (under) expenditures	(1,683,192)	-	2,715,376	(428,645)	915,485	1,519,024
Other financing source (uses):						
Net advance of property taxes	1,386,850	-	-	-	-	1,386,850
Transfer in (out) to debt service fund	(214,500)	-	-	214,500	-	-
Transfer from debt service	11,103	-	-	(11,103)	-	-
Total other financing source (uses)	1,183,453	-	-	203,397	-	1,386,850
Excess of revenues and other sources over (under) expenditures and other uses	(499,739)	-	2,715,376	(225,248)	915,485	2,905,874
Fund balance June 30, 2002	1,066,497	-	576,230	1,318,232	2,167,637	5,128,596
Prior period adjustment	35,120	-	-	(640,630)	-	(605,510)
Fund balance June 30, 2003	\$ 601,878	\$ -	\$ 3,291,606	\$ 452,354	\$ 3,083,122	\$ 7,428,960

See notes to financial statements.

**MUNICIPALITY OF UTUADO
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003**

Amounts reported for governmental activities in the statement of activities are different because: \$ 1,519,024

Net change in fund balance - total governmental funds
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	1,704,983	
Less current year depreciation	<u>(1,287,167)</u>	417,816

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. Also, governmental funds report the effect of issuance costs, premiums, discount, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount by which proceeds exceeded repayments

Principal payments	<u>(414,000)</u>	
--------------------	------------------	--

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. (3,572,359)

Change in net assets of governmental activities		<u><u>\$ (2,049,519)</u></u>
---	--	------------------------------

See notes to financial statement

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

GENERAL ORGANIZATION

The **Municipality of Utuado (the Municipality)** was founded in 1881. 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 Utuado (the Municipality)** 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 following summarizes the **Municipality** significant accounting policies:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The **Municipality's** financial statements include the operations of all departments for which the **Municipality** is financially accountable.

The financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and Members of the Municipal Assembly of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units, which may or may not fall within the Municipality's financial statements. The basic criterion for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

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

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Manifestations of Oversight Responsibility

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

Accountability for Fiscal Matters

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

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

Scope of Public Service

Special Financing Relationships

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to be Municipality of 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.

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 informatio that governments have reported in the past. Coparability 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.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basic Financial Statements-GASB Statement No. 34 (Continuation)

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.

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.

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.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Presentation (Continuation)

Major Funds (Continuation)

Economic Development Fund – Accounts for the proceeds of Federal Grants and loans and Local Special Assignments to develop specific purpose on the Economy of the Municipality.

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.

Capital Projects Fund – 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.

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.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting (Continuation)

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.

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.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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.

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.

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

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.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Data (Continuation)

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.

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 necessary adjustments to convert the result of operations of the general and debt service funds from the modified accrual of accounting to the budgetary basis are as follows:

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.

Investments consist of short-term certificates and are stated at cost, which approximates fair value.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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.

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 the 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.

Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacacion 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 Assets.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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**.

Restricted Assets

Investments and Certificates of Deposit-Enterprise Fund

Certain proceeds of enterprise fund revenue bonds, 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". For description of collateral, see Deposits Note.

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.

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.

Claims and Judgements

The estimated amount of the liability for claims and judgements, 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.

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actuals results could differ from those estimates.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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 Utuado** 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 purposes 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 11). **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 becomes 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.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the det 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 i the gneral 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 f the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$68,666 during 2003.

The following is a summaryof the property tax advances, which resulted as an account receivable, for the year ended June 30, 2003 and outstanding debt from 2003. 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	
07-01-01 – 06-30-02	\$6,006,449
Advance received, 07-01-01 – 06-30-02	(5,892,118)
Due from CRIM – 2003	\$114,331
Due to CRIM - 2002	\$ 54,296

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

3. DEPOSITS

Deposits include certificates of deposits amounting to \$1,843,000. **The Municipality's** cash and investments at June 30, 2003, 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.

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranted by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to properly 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 UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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	\$415,049	\$1,483,342
Other Funds	638,983	415,049
Capital Project	844,359	
	<u>\$1,898,391</u>	<u>\$1,898,391</u>

The interfund 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 consist 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, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

8. CAPITAL ASSETS

Fund Financial Statements

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

	Balance 6/30/02	Additions	Retire- ments	Balance 6/30/03
Governmental activities:				
Capital assets (not being depreciated):				
Land	\$ 786,768	\$ -	\$ -	\$ 786,768
Construction in progress	-	2,687,123	-	2,687,123
Total capital assets not being depreciated	<u>786,768</u>	<u>2,687,123</u>	<u>-</u>	<u>3,473,891</u>
Capital assets (being depreciated):				
Building and building improvements	2,432,620	-	-	2,432,620
Site improvements	898,560	-	-	898,560
Infraestructure	27,855,185	1,014,410	-	28,869,595
Furniture office equipment	1,458,418	150,331	-	1,608,749
Vehicles	3,325,992	142,911	(256,283)	3,212,620
Total capital assets being depreciated	<u>35,970,775</u>	<u>1,307,652</u>	<u>(256,283)</u>	<u>37,022,144</u>
Less accumulated depreciation for:				
Building and building improvements	(617,144)	(61,816)	-	(678,960)
Site improvements	(120,963)	(44,611)	-	(165,574)
Infraestructure	(4,560,354)	(698,811)	-	(5,259,165)
Furniture office equipment	(863,197)	(243,354)	-	(1,106,551)
Vehicles	(1,931,858)	(238,575)	256,283	(1,914,150)
Total accumulated depreciation	<u>(8,093,516)</u>	<u>(1,287,167)</u>	<u>256,283</u>	<u>(9,124,400)</u>
Total capital assets being depreciated (net)	<u>(27,877,259)</u>	<u>(20,485)</u>	<u>-</u>	<u>(27,897,744)</u>
Governmental activities capital assets (net)	<u>\$ 28,664,027</u>	<u>\$ 2,707,608</u>	<u>\$ -</u>	<u>\$ 31,371,635</u>

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

Governmental activities:	
General government	205,766
Public safety	862,683
Culture and recreation	105,526
Health	113,192
Total depreciation expense- governmental activities	<u>\$1,287,167</u>

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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	4-10	\$300
Furniture and Fixture	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.

9. CHANGES IN GENERAL LONG-TERM DEBT

Description	Payale at July 1, 2002	Additions	Reductions	Balance June 30, 2003
General Obligations Bonds	\$4,401,000	\$ -	\$414,000	\$3,987,000

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

9. GENERAL LONG-TERM DEBT (Continuation)

General Obligation Bonds:

Description	Original Amount	Interest Rate	Balance 06-30-03	Due Date
Bonds Series 2001	1,310,000	5% to 8%	1,260,000	07-01-2016
Bonds Series 1986	165,000	5.575%	82,000	01-01-2011
Bonds Series 1987	130,000	5.875%	70,000	01-01-2012
Bonds Series 1995	535,000	4.70 to 7.250%	410,000	07-01-2014
Bonds Series 1996	330,000	4.70% to 6.630%	280,000	07-01-2019
Sub-total			2,102,000	

Operational Loans:

Bonds Series 1985	1,405,000	6% to 8.5%	375,000	07-01-2006
Bonds Series 1997	400,000	6% to 8%	315,000	07-01-2016
Bonds Series 1997	235,000	6.00 to 8.0%	185,000	07-01-2016
Bonds Series 1998	585,000	4.865 to 6%	285,000	07-01-2005
Bonds Series 2000	705,000	5% to 7%	625,000	07-01-2008
Sub-total			1,785,000	

Special Loans from Lottery Funds:

Bonds Series 1987	500,000	8%	100,000	07-01-2007
Sub-total			100,000	
Total			3,987,000	

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(continued)

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

Year Ending	Principal	Interest	Total
2004	\$434,000	\$203,453	\$637,453
2005	470,000	184,305	654,305
2006	501,000	161,824	662,824
2007	277,000	135,183	412,183
2008	273,000	122,283	385,283
Subsequent years	2,032,000	-	2,032,000
	<u>\$3,987,000</u>	<u>\$807,048</u>	<u>\$4,794,048</u>

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

10. 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 general obligations bonds and notes.

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

Property taxes	\$198,439
General funds	214,379
Debt Service	227,811
	\$640,629

Expenditures for the year 2002-2003 were as follows:

Principal	\$414,000
Interest	213,004

	\$627,004
	=====

11. 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 retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 42003, San Juan Puerto Rico. 00940.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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.

NEW PLAN

Eligibility

Pension Benefits

Age 65 with 10 years
of servie

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

For both plants, 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 evry three years by 3% subject to the approval by the Legislature of Puerto Rico.

MUNICIPALITY OF UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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 2003 amounted approximately \$2,634,300 and \$2,258,100 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary.

12. CLAIMS AND CONTINGENCIES

Contingencies

As per Act No. 72 of September 7, 1993, "Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. As of June 30, 2003 the amount billed by HIA to the Municipality amounted to \$1,595,489. The Municipality alleged that the HIA never discussed the amount to be contributed by the Municipality and is determined unilaterally. The Municipality's management decided not to record the liability on the financial statements.

On July 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 will be earned on the additional lottery games.

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's 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 UTUADO, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Comptroller's Office Audits

The Municipality of Utuado , Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office issued a final report related to the financial operations of the Municipality dated November 2, 2001. The report covers municipal operations from July 1, 1997 through June 30, 2000. Such report includes findings regarding to certain alleged irregularities in the operations and administration of the Municipality of Utuado, Puerto Rico, during the stated period. The Comptroller's opinion in the report stated that the operations of the Municipality were conducted substantially in accordance with laws and regulations, except for some findings disclosed in specific municipal operations.

13. PRIOR PERIOD ADJUSTMENTS

General Fund

The current bank account includes certain non-budgeted fund cash balances, which have not been naluzed. Therefore, when differences are determined, they are recorded as an adjustments to the beginning fund balance. This year's difference amounted to \$35,120 and the amount, if any, that would have been recorded in the current year revenues or expenditures of the general fund, was not practicable to determine.

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

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Program:			
Department of Housing and Urban Development Public and Indian Housing Section 8-Rental Voucher Program	14-855	RQ46-VO-54-001	\$ 842,650
Pass-through State- Commissioner Office of Municipal Affairs Community Development Block Grant Small Cities Program - SBGP	14-228	B-01-MC-72-0016	526,282
Sub-total U.S. Department of HUD			<u>1,368,932</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)</u>			
Head Start PA-22	93-600		4,868,665
Head Start PA-20	93-600		10,322
Sub-total U.S. Department of HHS			<u>4,878,987</u>
<u>U.S. DEPARTMENT OF AGRICULTURE (ASDA)</u>			
Pass-through State - Child and Adult Food Care Program (CFDA) Child Care	10-558		298,611
Sub-total U.S. Department USDA			<u>298,611</u>
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)</u>			
Public Assistance Grant			
George 1247	83-545		1,267,162
Lluvia 1396	83-545		96,412
			<u>1,363,574</u>
			<u><u>\$ 7,910,104</u></u>

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

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Utuado, Puerto Rico and is presented on the accrual basis of accounting. The reporting entity is define 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 Utuado, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Other Funds</u>	<u>Total</u>
Federal Programs Expenditures	\$4,878,967	\$526,282	\$2,504,855	\$7,910,104
State & Municipal Expenditures	--	495,520	2,968,443	3,463,963
Total Expenditures	\$4,878,967	\$1,021,802	\$5,473,298	\$11,374,067,

**MUNICIPALITY OF UTUADO, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Adjusted	Variance
	Original	Final	Actual Note 1	Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 340,721	\$ 340,721	\$ 471,913	\$ 131,192
Local taxes	625,000	625,000	680,962	55,962
Intergovernmental revenues	5,262,650	5,262,650	5,012,494	(250,156)
Licenses, Permits and F.	1,607,000	1,607,000	529,255	(1,077,745)
Rent of properties	20,000	20,000	79,744	59,744
Interest income	150,000	150,000	114,877	(35,123)
Other revenues	85,000	85,000	212,785	127,785
Other financial sources	1,386,849	1,386,849	1,386,849	0
Total revenues	9,477,220	9,477,220	8,488,879	(988,341)
EXPENDITURES:				
Current:				
General Government	4,078,767	4,078,767	3,879,084	199,683
Public safety	842,075	842,075	789,685	52,390
Public Work	2,794,873	2,794,873	2,714,250	80,624
Health	650,486	650,486	616,759	33,727
Culture and Recreation	806,734	806,734	781,443	25,291
Transfer-out	276,622	276,622	258,067	18,555
Total expenditures	9,449,558	9,449,558	9,039,288	410,269
Excess of revenues over (under) expenditures			\$ (550,409)	\$ (578,072)

Explanation of Differences:

Decrease in licenses, permits and fines is due excise tax collected less than budget.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represent department appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the of the Municipal Legislature. Transfer of appropriations within the budget, known as Mayor's Resolution, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operation of the general fund.

For budgetary purpose, encumbrance accounting is used. The encumbrance are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriations at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balances from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule - General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

See notes to budgetary comparison schedule.

Juan A. Feliciano Charneco
CERTIFIED PUBLIC ACCOUNTANT

406 Tnt. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

**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 Utuado, Puerto Rico

I have audited the financial statements of the Municipality of Utuado; Puerto Rico, as of and for the year ended June 30, 2003, and has issued a qualified (for its general fixed assets) report thereon dated December 19, 2003. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtain reasonable assurance about whether the Municipality of Utuado 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

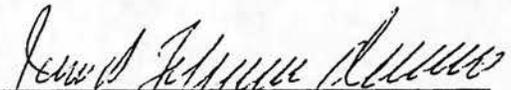
In planning and performing my audit, I considered Municipality of Utuado, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over 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 Utuado, in a separate dated December 19, 2003.

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

San Juan, Puerto Rico
December 19, 2003

The stamp number 1942634
Was affixed to the
original of this report.


CPA/JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2004



Juan A. Feliciano Charnaco
CERTIFIED PUBLIC ACCOUNTANT

406 Tnt. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

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

Mayor of the Municipality of Utuado
Utuado, Puerto Rico

Compliance

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

In my 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, 2003. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2003-01, 2003-02, and 2002-03.

Internal Control Over Compliance

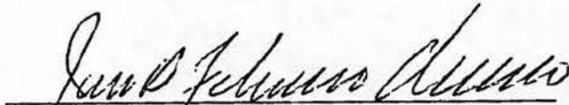
The management of the Municipality of Utuado, Puerto Rico, is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Utuado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

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider being material weaknesses.

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

San Juan, Puerto Rico
December 19, 2003

The stamp number 1942635
was affixed to the
original of this report.


CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2004



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

A. Summary of Audit results

Financial Statements

Type of auditor's issued:

Qualified

Internal control over financial reporting:

Material weakness (es) identified?

___ Yes __ X ___ No

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

___ Yes __ X ___ No None

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
14.855	Section 8 – Voucher
93.600, 93-575	Head Start
14-228	SBGP
83-545	FEMA

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

300,000

Auditee qualified as low-risk auditee

Yes No

B - Financial Statements Findings

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

C - Federal Award Findings and Questioned Cost

Federal Program Information

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

U.S. Department of Housing and Urban Development
Passed-through State Commissioner Office of Municipal Affairs
CFDA No. 14-228
Grant SBGP – 1997, 1998 and 2000
Year ended June 30, 2003

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

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

**Department of Health and Human Services
CFDA No. 93-600
Grant – Head Start
Year Ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2003-02	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance that is the Municipality is not complying with the criteria established by Treasury Circular letter 1075. The Municipality's financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from the Department of Health and Human Services and the disbursements by the Municipality. It was noted during my audit that the Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u> The Municipality does not maintain adequate procedures for the administration of cash that determine properly their use needed.</p> <p><u>Auditor's Recommendation</u> The Municipality must establish adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u> We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedure, followed to establish a procedure to minimize the time between the funds received and the expenditures.</p>	<p style="text-align: center;">-0-</p>

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

U.S. Department of Agriculture
Passed-through State Child and Adult Food Care
CFDA No. 10-558
Grant Child Care
Year ended June 30, 2003

Ref. No. Finding / Noncompliance

2003-03 Statement of Condition and Criteria

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

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

Cause

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

Effect

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

Auditor's Recommendation

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

Municipality Response:

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

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

2002 – Finding No. 1: Head Start
CFDA No. 93-600
Year ended June 30, 2002

Condition

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

To established procedures to minimize the time elapsing between the transfer of funds from the office of 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.

Recommendation

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

Current Status

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

Findings reported again.

2002 – Finding No. 2: Head Start
CFDA No. 93-600
Year ended June 30, 2002

Condition

Bidding procedures do not comply with the grant requirement.

Recommendation

The Municipality establishes adequate procedures in order to comply with the requirements the bidding procedure.

Current Status

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

Finding was corrected.



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

Alan J. González Cancel
Alcalde

Limarie Vélez González
Directora

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

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated</u>
	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
2003-01	<p><u>Statement of Condition:</u> The SBGP Program, cash balance over \$5,000 for periods End longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures the use federal funds in effective manner.</p> <p><u>Person Responsible:</u> Limarie Vélez González, Finance Director</p>	On or before end of 2003-04 fiscal year
2003-02	<p><u>Statement of Condition:</u> The Head Start Program Cash balance over \$5,000 For periods longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures the use federal funds in effective manner.</p> <p><u>Person Responsible:</u> Limarie Vélez González, Finance Director</p>	On or before end of 2003-03 fiscal year

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

<u>Ref. No.</u>	<u>Finding /Corrective Action Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>
2003-03	<p><u>Statement of Condition:</u> The Child Care Program cash balance over \$5,000 For periods longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures in effective manner.</p> <p><u>Person Responsible:</u> Limarie Vélez González, Finance Director</p>	<p>On or before end of 2003-03 fiscal year</p>

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates On or After January 1, 2001

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

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

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal period ending date for this submission
2. Type of Circular A-133 audit
3. Audit period covered
4. Date received by Federal clearinghouse
5. Employer Identification Number (EIN)
b. Are multiple EINs covered in this report?

6. AUDITEE INFORMATION
a. Auditee name
b. Auditee address (Number and street)
c. Auditee contact
d. Auditee contact telephone
e. Auditee contact FAX (Optional)
f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)
a. Auditor name
b. Auditor address (Number and street)
c. Auditor contact
d. Auditor contact telephone
e. Auditor contact FAX (Optional)
f. Auditor contact E-mail (Optional)

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.

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

Signature of certifying official
Date Month Day Year
Printed Name/Title of certifying official

Signature of auditor
Date Month Day Year

PART I GENERAL INFORMATION - Continued

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

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

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

PART II FINANCIAL STATEMENTS (To be completed by auditor)

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

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

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

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

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

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

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance

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

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

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

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

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

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

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

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ ____, .315(b)) 1 Yes 2 No

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

- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input checked="" type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input 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 | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 86 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

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

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

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

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

FORM SF-SAC (3-20-2001)

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

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
CFDA Number (a)			Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²								
1	4	.855	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION -8 -VOUCHER	\$ 842,650 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
1	4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 526,282 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	C	2003-01
9	3	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START	\$ 4,878,987 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	C	2003-02
1	0	.558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE	\$ 298,611 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	C	2003-03
8	3	.545	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FEMA	\$ 1,363,574 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →					\$ 7,910,104 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § __.510(a)) reported for each Federal program.

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

⁴ N/A for NONE