

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE AGUADILLA**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADILLA, PUERTO RICO

INDEPENDENT AUDITORS' REPORTS ON  
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2001

(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133)

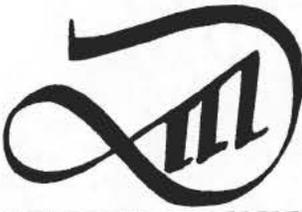
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADILLA, PUERTO RICO  
INDEPENDENT AUDITORS' REPORTS ON  
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2001  
(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND THE OMB CIRCULAR A-133)**

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**PART I**  
**FINANCIAL**



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## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
Member of the Municipal Legislature  
Municipality of Aguadilla, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Aguadilla, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of "Corporación para la Administración y Desarrollo del Parque Acuático Las Cascadas del Municipio de Aguadilla, C.D.", a component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for in the component unit column, is based on the report of the other auditors.

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

The **Municipality** accounting system and records of property, plant and equipment does not included all transactions that should be capitalized on the General Fixed Assets Account Group. We were unable to obtain sufficient competent evidential matters through audit procedures to satisfied ourselves regarding the reasonableness of the amounts presented in the accompanying general-purpose combined financial statements. Therefore, we do not express an opinion on such amount represent in the General Fixed Assets Account Group.

The **Municipality** does not maintain a complete self-balancing cash accounts and has undistributed credits balances in the General Ledger of the General and Special Revenue Funds, for the amounts of \$482,821 and \$345,965, respectively. Therefore, we do not express an opinion on such amount presented in those funds.

# INDEPENDENT AUDITORS' REPORT

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In our opinion, based on our audit and the report of other auditors, except for the effect, if any, as might have determined to be necessary had we been able to audit the fixed assets of the General Fixed Assets Account Group, and the transactions not recorded in the Cash Accounts of the General and Special Revenue Funds, as explained in above paragraphs, and based on our audit and the report of other auditor, the general-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2001, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2001 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

  
CPA DIAZ-MARTINEZ, PSG  
Certified Public Accountants

Caguas, Puerto Rico  
December 6, 2001



**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS  
AND DISCRETELY PRESENTED COMPONENT UNIT**

**JUNE 30, 2001**

	PRIMARY GOVERNMENT FUND TYPES AND ACCOUNT GROUPS								REPORTING Entity TOTALS (MEMORANDUM ONLY)
	GOVERNMENT FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	DISCRETE COMPONENT UNIT	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT			
<b>ASSETS AND OTHER DEBITS:</b>									
Cash and Investments (Notes 1 E And 2).....	\$ 2,435,556	\$ 4,406,661	\$ 36,657	\$ -	\$ -	\$ -	\$ 6,878,874	\$ -	\$ 6,878,874
Cash with Fiscal Agent (Note 1 E).....	598,460	6,259,494	5,136,134	8,722,846	-	-	20,716,934	-	20,716,934
Receivables:									
Trade Account Receivable .....	-	-	-	-	-	-	-	11,407	11,407
Property Taxes (Note 10).....	-	-	-	90,605	-	-	90,605	-	90,605
Volume of Business Taxes (Note 11) ...	13,984	-	-	-	-	-	13,984	-	13,984
Federal Grants (Note 12) .....	-	156,785	-	-	-	-	156,785	-	156,785
Others Funds (Note 4).....	5,832,077	1,753,301	311,247	-	-	-	7,896,625	-	7,896,625
Others (Note 3).....	584,957	-	-	26,529	-	-	611,486	-	611,486
Property, Plant and Equipment (Note 6).....	-	-	-	-	86,844,371	-	86,844,371	70,260	86,914,631
Amount Available in Debt Service Fund (Note 9).....	-	-	-	-	-	8,762,666	8,762,666	-	8,762,666
Amount to be Provide for Payment of:									
General Long-Term Debt (Notes 7 & 8).....	-	-	-	-	-	20,592,334	20,592,334	-	20,592,334
Advance of Property Taxes (Note 10)...	-	-	-	-	-	126,158	126,158	-	126,158
State Health Insurance Plan (Note 8) ...	-	-	-	-	-	2,070,142	2,070,142	-	2,070,142
Unemployment Liability (Note 8).....	-	-	-	-	-	238,066	238,066	-	238,066
Obligation Under Capital Leases (Note 7).....	-	-	-	-	-	405,159	405,159	-	405,159
Claims and Judgments (Note 14) .....	-	-	-	-	-	2,000,000	2,000,000	-	2,000,000
Compensated Absences (Note 1 H) .....	-	-	-	-	-	2,317,786	2,317,786	-	2,317,786
<b>TOTAL ASSETS AND OTHER DEBITS.....</b>	<b>\$ 9,465,034</b>	<b>\$ 12,576,241</b>	<b>\$ 5,484,038</b>	<b>\$ 8,839,980</b>	<b>\$ 86,844,371</b>	<b>\$ 36,512,311</b>	<b>\$159,721,975</b>	<b>\$ 81,667</b>	<b>\$159,803,642</b>

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS  
AND DISCRETELY PRESENTED COMPONENT UNIT**

**JUNE 30, 2001**

	PRIMARY GOVERNMENT FUND TYPES AND ACCOUNT GROUPS								REPORTING Entity TOTALS (MEMORANDUM ONLY)
	GOVERNMENT FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	DISCRETE COMPONENT UNIT	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT			
<b>LIABILITIES AND FUND EQUITY</b>									
<b>LIABILITIES:</b>									
Accounts Payable and Accrued Liabilities .....	\$ 974,996	\$ 1,510,752	\$ 508,264	\$ -	\$ -	\$ -	\$ 2,994,012	\$ 252,969	\$ 3,246,981
Due to:									
Government Units (Note 5).....	462,912	-	-	-	-	-	462,912	-	462,912
Other Funds (Note 4) .....	908,229	1,339,305	1,649,218	3,999,873	-	-	7,896,625	-	7,896,625
Others .....	129,624	-	-	-	-	-	129,624	-	129,624
Primary Government .....	-	-	-	-	-	-	-	188,189	188,189
Deferred Revenues:									
Volume of Business Tax (Note 11) .....	6,748,652	-	-	-	-	-	6,748,652	-	6,748,652
Federal Grants (Note 12) .....	-	1,335,021	-	-	-	-	1,335,021	-	1,335,021
Long-Term Debts:									
General Obligations Bonds (Note 8) .....	-	-	-	-	-	26,045,000	26,045,000	-	26,045,000
Special Obligations Notes (Note 8) .....	-	-	-	-	-	3,310,000	3,310,000	-	3,310,000
Advance of Property Taxes (Note 10) .....	-	-	-	-	-	126,158	126,158	-	126,158
State Health Insurance Plan (Note 8) .....	-	-	-	-	-	2,070,142	2,070,142	-	2,070,142
Obligation on Capital Lease (Note 7) .....	-	-	-	-	-	238,066	238,066	-	238,066
Unemployment Liability (Note 8) .....	-	-	-	-	-	405,159	405,159	-	405,159
Claims and Judgments (Note 14) .....	-	-	-	-	-	2,000,000	2,000,000	-	2,000,000
Vested Compensated Absences (Note 1 H) .....	-	-	-	-	-	2,317,786	2,317,786	-	2,317,786
<b>TOTAL LIABILITIES .....</b>	<b>9,224,413</b>	<b>4,185,078</b>	<b>2,157,482</b>	<b>3,999,873</b>	<b>-</b>	<b>36,512,311</b>	<b>56,079,157</b>	<b>441,158</b>	<b>56,520,315</b>

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS  
AND DISCRETELY PRESENTED COMPONENT UNIT**

**JUNE 30, 2001**

	PRIMARY GOVERNMENT FUND TYPES AND ACCOUNT GROUPS								REPORTING Entity TOTALS (MEMORANDUM ONLY)
	GOVERNMENT FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	DISCRETE COMPONENT UNIT	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT			
<b>FUND EQUITY:</b>									
Investment in Property, Plant and Equipment (Note 6).....	\$ -	\$ -	\$ -	\$ -	\$ 86,844,371	\$ -	\$ 86,244,371	\$ -	\$ 86,244,371
<b>Fund Balance:</b>									
Reserved for Encumbrances (Note 1 K).....	3,685,114	1,257,994	1,702,476	-	-	-	6,645,584	-	6,645,584
<b>Unreserved:</b>									
Net Assets (Note 1A).....	-	-	-	-	-	-	-	(359,491)	(359,491)
Designated for Debt Service (Note 1K).....	-	-	-	4,840,107	-	-	4,840,107	-	4,840,107
Designated for Subsequent Years Expenditures .....	598,460	7,133,169	1,624,080	-	-	-	9,355,709	-	9,355,709
Undesignated (Deficit).....	(4,042,953)	-	-	-	-	-	(4,042,953)	-	(4,042,953)
<b>TOTAL FUND EQUITY (DEFICIT) .....</b>	<b>240,621</b>	<b>8,391,163</b>	<b>3,326,556</b>	<b>4,840,107</b>	<b>86,844,371</b>	<b>-</b>	<b>103,642,818</b>	<b>(359,491)</b>	<b>103,283,327</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 9,465,034</b>	<b>\$ 12,576,241</b>	<b>\$ 5,484,038</b>	<b>\$ 8,839,980</b>	<b>\$ 86,844,371</b>	<b>\$ 36,512,311</b>	<b>\$159,721,975</b>	<b>\$ 81,667</b>	<b>\$159,803,642</b>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
AND DISCRETELY PRESENTED COMPONENT UNIT**

**FOR THE YEAR ENDED JUNE 30, 2001**

	PRIMARY GOVERNMENT FUND TYPES AND ACCOUNT GROUPS						REPORTING Entity TOTALS (MEMORANDUM ONLY)
	GOVERNMENT FUND TYPES				TOTALS (MEMORANDUM ONLY)	DISCRETE COMPONENT UNIT	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE			
<b>REVENUES</b>							
Property Taxes (Note 10).....	\$ 7,737,857	\$ -	\$ -	\$ 2,834,360	\$10,572,217	\$ -	\$10,572,217
Volume of Business Taxes (Note 11).....	7,543,806	-	-	-	7,543,806	-	7,543,806
Federal Assistance (Note 12).....	-	10,494,242	-	-	10,494,242	-	10,494,242
Intergovernmental (Note 12).....	3,427,714	1,964,875	-	-	5,392,588	-	5,392,588
Licenses and Permits.....	610,524	-	-	-	610,524	-	610,524
Rent.....	581,309	-	-	-	581,309	-	581,309
Miscellaneous.....	<u>1,501,409</u>	<u>484,880</u>	-	-	<u>1,986,289</u>	<u>1,444,835</u>	<u>3,431,124</u>
<b>TOTAL REVENUES</b> .....	<u>21,402,619</u>	<u>12,943,996</u>	-	<u>2,834,360</u>	<u>37,180,975</u>	<u>1,444,835</u>	<u>38,625,810</u>
<b>EXPENDITURES</b>							
<b>Current:</b>							
Mayor and Municipal Legislature.....	2,230,082	-	-	-	2,230,082	-	2,230,082
General Government.....	9,832,501	3,661,158	199,978	-	13,693,637	1,768,122	15,461,759
Public Safety.....	1,103,899	-	-	-	1,103,899	-	1,103,899
Public Works.....	3,951,939	-	-	-	3,951,939	-	3,951,939
Culture and Recreation.....	743,354	-	-	-	743,354	-	743,354
Sanitation.....	1,030,777	-	-	-	1,030,777	-	1,030,777
Human Services and Welfare.....	2,251,420	1,480,044	-	-	3,731,464	-	3,731,464
Public Instruction.....	-	4,477,278	-	-	4,477,278	-	4,477,278
Urban Development.....	3,363,684	32,690	10,721,560	-	14,117,934	-	14,117,934
Capital Outlays.....	76,933	1,855,713	1,448,000	-	3,380,646	-	3,380,646
Collections applied to Property Taxes Advance (Note 10).....	6,344,987	-	-	-	6,344,987	-	6,344,987
Valuation Reserve.....	-	-	-	-	-	20,371	20,371
Depreciation.....	-	-	-	-	-	7,190	7,190
<b>Debt Service:</b>							
Principal Retirement (Notes 7 and 8).....	-	650,000	-	1,600,000	2,250,000	-	2,250,000
Interest Payment.....	-	<u>28,113</u>	-	<u>1,585,470</u>	<u>1,613,583</u>	<u>8,643</u>	<u>1,622,226</u>
<b>TOTAL EXPENDITURES</b> .....	<u>30,929,576</u>	<u>12,184,996</u>	<u>12,369,538</u>	<u>3,185,470</u>	<u>58,669,580</u>	<u>1,804,326</u>	<u>60,473,906</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<u>(9,526,957)</u>	<u>759,000</u>	<u>(12,369,538)</u>	<u>(351,110)</u>	<u>(21,488,605)</u>	<u>(359,491)</u>	<u>(21,848,096)</u>

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
AND DISCRETELY PRESENTED COMPONENT UNIT**

**FOR THE YEAR ENDED JUNE 30, 2001**

	PRIMARY GOVERNMENT FUND TYPES AND ACCOUNT GROUPS						REPORTING Entity TOTALS (MEMORANDUM ONLY)
	GOVERNMENT FUND TYPES				TOTALS (MEMORANDUM ONLY)	DISCRETE COMPONENT UNIT	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE			
<b>OTHER FINANCIAL SOURCES (USES):</b>							
Property Taxes Advance (Note 10) .....	\$ 6,344,987	\$ -	\$ -	\$ -	\$ 6,344,987	\$ -	\$ 6,344,987
Proceed of Bonds (Note 7) .....	-	7,165,000	-	-	7,165,000	-	7,165,000
Operating Transfer In (Note 1J) .....	3,922,558	68,000	6,091,973	516,050	10,598,581	-	10,598,581
Operating Transfer Out (Note 1J).....	(584,050)	(6,091,973)	-	(3,922,558)	(10,598,581)	-	(10,598,581)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>9,683,495</b>	<b>1,141,027</b>	<b>6,091,973</b>	<b>(3,406,508)</b>	<b>13,509,987</b>	<b>-</b>	<b>13,509,987</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources.....	156,538	1,900,027	(6,277,565)	(3,757,618)	(7,978,618)	(359,491)	(8,338,109)
Fund Balances, at Beginning of Year .....	84,083	6,491,136	9,604,122	8,597,725	24,777,066	-	24,777,066
<b>FUND BALANCES (DEFICIT) AT END OF YEAR...</b>	<b>\$ 240,621</b>	<b>\$ 8,391,163</b>	<b>\$ 3,326,557</b>	<b>\$ 4,840,107</b>	<b>\$16,798,448</b>	<b>(\$ 359,491)</b>	<b>\$16,438,957</b>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2001**

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>						
Property Taxes Advances .....	\$ 7,603,896	\$ 7,737,859	\$ 133,963	\$ 2,644,564	\$ 2,834,360	\$ 189,796
Volume of Business Taxes .....	9,682,697	7,543,806	(2,138,891)	-	-	-
Intergovernmental.....	3,311,256	3,351,366	40,110	-	-	-
Licenses and Permits .....	4,855,311	610,524	(4,244,787)	-	-	-
Rent.....	595,000	581,309	(13,691)	-	-	-
Miscellaneous.....	<u>2,927,100</u>	<u>1,501,407</u>	<u>(1,425,693)</u>	-	-	-
TOTAL REVENUES.....	<u>28,975,260</u>	<u>21,326,271</u>	<u>(7,648,989)</u>	<u>2,644,564</u>	<u>2,834,360</u>	<u>189,796</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>						
Mayor and Municipal Legislature .....	2,705,743	2,518,977	186,766	-	-	-
General Government:						
Finance .....	7,914,522	7,009,497	905,025	-	-	-
Personnel .....	1,191,148	1,119,068	72,080	-	-	-
Insurance.....	612,308	609,864	2,444	-	-	-
Public Safety.....	1,138,657	1,109,188	29,469	-	-	-
Public Works .....	4,095,519	4,040,875	54,644	-	-	-
Culture and Recreation.....	777,326	757,963	19,363	-	-	-
Sanitation .....	1,130,799	1,121,791	9,008	-	-	-
Human Services and Welfare.....	2,277,110	2,280,290	(3,180)	-	-	-
Urban Development.....	6,485,962	5,305,970	1,179,992	-	-	-
Capital Outlays .....	122,116	94,895	27,221	-	-	-
Debt Services .....	-	-	-	<u>2,644,564</u>	<u>3,185,470</u>	<u>(540,906)</u>
TOTAL EXPENDITURES AND ENCUMBRANCES .....	<u>28,451,210</u>	<u>25,968,378</u>	<u>2,482,832</u>	<u>2,644,564</u>	<u>3,185,470</u>	<u>(351,110)</u>
EXCESS OF REVENUES Over (Under) Expenditures and Encumbrances.....	<u>524,050</u>	<u>(4,642,107)</u>	<u>(5,166,157)</u>	-	<u>(351,110)</u>	<u>(351,110)</u>

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2001**

	GENERAL			DEBT SERVICE		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>OTHER FINANCIAL SOURCES (USES):</b>						
Prior Year Allocation.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Transfer In (Out) .....	<u>(524,050)</u>	<u>3,398,508</u>	<u>3,922,558</u>	<u>-</u>	<u>(3,406,508)</u>	<u>(3,406,508)</u>
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses .....	<u>\$ -</u>	<u>(1,243,599)</u>	<u>(\$ 1,243,599)</u>	<u>\$ -</u>	<u>(3,757,618)</u>	<u>(\$ 3,757,618)</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance .....		1,383,789			-	
Net Change in Nonbudgeted Items .....		(60,000)			-	
GAAP Adjustment to Revenues .....		76,348			-	
Fund Balance, at Beginning of Year.....		<u>84,083</u>			<u>8,597,725</u>	
<b>FUND BALANCE AT END OF YEAR....</b>		<u>\$ 240,621</u>			<u>\$ 4,840,107</u>	

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Aguadilla, Puerto Rico (Municipality)** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

**A. Financial Reporting Entity**

The general-purpose financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the **Municipality**. This includes the organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criterias applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, and "Corporación para la Administración y Desarrollo del Parque Acuático Las Cascadas del Municipio de Aguadilla, C.D." Significant influence or accountability is based primarily on financial relationships (as distinct from legal relationships).

Copies of component unit report may be obtained from the **Municipality's** Finance Department.

**B. Basis of Presentation**

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis of accounting includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense.

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**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

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

Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

**GOVERNMENTAL FUNDS**

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 financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the **Municipality's** governmental fund types:

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

Special Revenue Fund – This is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Fund – This is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the general fixed assets account group.

**ACCOUNT GROUPS**

Account groups is not fund; it does not reflect available financial resources and related liabilities, but is accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the **Municipality's** general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the **Municipality**:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the **Municipality**.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the **Municipality**.

**C. Basis of Accounting**

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period.

Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply. In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, monies must be expended on the specific purpose or project before any amounts will be paid to the **Municipality**; therefore, revenues are recognized based upon the expenditures recorded.

For the second type, monies are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

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**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**C. Basis of Accounting (continuation)**

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

**D. Budgetary Accounting**

The Municipality's Annual Budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general-purpose financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Combined Financial Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 10).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**D. Budgetary Accounting (continuation)**

4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

The special funds of the Special Revenue Fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

**E. Cash and Investment**

The Director of Finance of the **Municipality** is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements.

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and Government Development Bank of the Commonwealth of Puerto Rico. Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements.

**F. Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

**G. General Fixed Assets**

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the **Municipality**. Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

**H. Compensated Absences**

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (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, or upon retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed.

The **Municipality** accrues a liability for compensated absences, which meet the following criteria: (1) the **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) Payment of the compensation is probable; and (3) the amount can be reasonably estimated. In accordance with state law, the excess of sixty (60) days of vacations not taken by employees during the next six (6) month after year end, should be paid only by exceptions, when employer require the assistance of the employee.

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**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**H. Compensated Absences (continuation)**

In accordance with the above criteria and requirements as established by **GASB Number 16**, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

**I. Insurance**

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy send to the **Municipality**.

**J. Interfund Transactions**

The **Municipality** has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

**K. Reservations of Fund Balance**

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

Debt Service – Represents net assets available to finance future debt service payments.

Encumbrance – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

**L. Claims and Judgments**

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-Term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

**M. Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

**NOTE 2 CASH AND INVESTMENTS**

Investments consist of certificates of deposit. The **Municipality's** cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

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.

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**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 2 CASH AND INVESTMENTS (continuation)**

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2001, the market value of investments recorded in Special Revenue Fund approximated its carrying value as follow:

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank of Puerto Rico	111000097	\$ 500,000	4.20%	07-01-01
Popular Bank of Puerto Rico	111000096	500,000	4.20%	07-01-01
Western Bank .....	700712231	500,000	4.25%	07-12-01
Western Bank .....	700712233	<u>500,000</u>	4.25%	07-22-01
<b>TOTAL.....</b>		<b><u>\$2,000,000</u></b>		

The investments are distributed by the amounts of \$1,000,000 in the General Fund and \$1,000,000 in the Special Revenue Fund.

**NOTE 3 OTHERS RECEIVABLES**

As of June 30, 2001, the amount of \$300,000 correspond to loan receivable from Aquatic Park "Las Cascadas", \$149,000 that represent the deposits paid for capital leases agreements, \$61,849 correspond to interest receivables from investments, and \$74,108 from others.

**NOTE 4 INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2001 consist of the follows:

	INTERFUND	
	RECEIVABLE	PAYABLE
General:		
Interfund Loans.....	\$1,832,203	\$ -
Receivable from Debt Service Fund .....	3,999,874	908,229
Special Revenue:		
Interfund Loans.....	1,753,301	1,339,305
Capital Project:		
Interfund Loans.....	311,247	1,649,218
Debt Services:		
Payable to General Fund.....	-	<u>3,999,873</u>
<b>TOTAL.....</b>	<b><u>\$7,896,625</u></b>	<b><u>\$7,896,625</u></b>

**NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2001, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
Puerto Rico Electric Power Authority .....	\$ 448,324
General Service Administration .....	1,784
Water Company.....	<u>12,804</u>
<b>TOTAL.....</b>	<b><u>\$ 462,912</u></b>

The Municipality due the amount of \$2,070,142 to State Insurance Health Plan (ASES). This amount should be amortize through retention of the increase in the Electronic LOTO participation received by the Municipality, in accordance with Law Number 29, of July 1, 1997.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 6 PROPERTY, PLANT AND EQUIPMENT**

A summary of changes in property, plant and equipment follows:

DESCRIPTION	BALANCE JULY 1, 2000	ADDITIONS AND ADJUSTMENTS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2001
Land.....	\$ 7,719,768	\$ 233,774	\$ -	\$ 7,953,542
Building and Improvements.....	65,405,103	2,925,847	-	68,330,950
Machinery and Equipment.....	8,891,327	871,918	2,477,368	7,285,877
Motor Vehicles – Leased.....	<u>3,274,002</u>	-	-	<u>3,274,002</u>
<b>TOTAL.....</b>	<b><u>\$85,290,200</u></b>	<b><u>\$ 4,031,539</u></b>	<b><u>\$ 2,477,368</u></b>	<b><u>\$86,844,371</u></b>

**NOTE 7 OBLIGATIONS UNDER CAPITALIZED LEASES**

The Municipality is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long-Term Debts Account Group, respectively. Assets under capital leases totaled \$3,274,002 (See Note 6) at June 30, 2001. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2001:

YEAR ENDING JUNE 30,	OBLIGATION UNDER CAPITAL LEASES
2002.....	<u>\$ 405,159</u>
<b>Minimum Lease Payments for All Capital Leases.....</b>	<b><u>\$ 405,159</u></b>

**NOTE 8 GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE**

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality. General obligations bonds and notes payable as of June 30, 2001, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$1,300,000, Series 1988, payable in semiannual installments ranging from \$40,000 to \$150,000, excluding interest, through July 1, 2002; interest at 8.26%.....	\$ 285,000
\$1,640,000, Series 1993, payable in semiannual installments ranging from \$110,000 to \$235,000, excluding interest, through July 1, 2002; interest at 3.26%.....	445,000
\$590,000, Series 1999, payable in semiannual installments ranging from \$20,000 to \$70,000, excluding interest, through July 1, 2013; interest at 8.00%.....	545,000
\$2,840,000, Series 1999, payable in semiannual installments ranging from \$105,000 to \$300,000, excluding interest, through July 1, 2013; interest at 7.50%.....	2,620,000
\$5,065,000, Series 1999, payable in semiannual installments ranging from \$70,000 to \$425,000, excluding interest, through July 1, 2023; interest at 7.50%.....	4,915,000
\$3,210,000, Series 1999, payable in semiannual installments ranging from \$45,000 to \$270,000, excluding interest, through July 1, 2023; interest at 7.50%.....	3,115,000

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 8 GENERAL LONG-TERM DEBTS (continuation)**

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$1,700,000, Series 1999, payable in semiannual installments ranging from \$115,000 to \$230,000, excluding interest, through July 1, 2008; interest at 7.50%.....	\$ 1,455,000
\$805,000, Series 1999, payable in semiannual installments ranging from \$5,000 to \$65,000, excluding interest, through July 1, 2023; interest at 7.50%.....	785,000
\$3,520,000, Series 2000, payable in annual installments ranging from \$130,000 to \$370,000, excluding interest, through July 1, 2014; interest at 8.00%.....	3,390,000
\$1,340,000, Series 2000, payable in annual installments ranging from \$15,000 to \$115,000, excluding interest, through July 1, 2024; interest at 8.00%.....	1,325,000
\$975,000, Series 2000, payable in installments ranging from \$65,000 to \$135,000, excluding interest, through July 1, 2010, interest at 8.00%.....	975,000
\$3,015,000, Series 2001, payable in installments ranging from \$65,000 to \$285,000, excluding interest, through July 1, 2020; interest at 8.00%.....	3,015,000
\$1,010,000, Series 2001, payable in installments ranging from \$170,000 to \$240,000, excluding interest, through July 1, 2005; interest at 8.00%.....	1,010,000
\$2,165,000, Series 2001, payable in installments ranging from \$25,000 to \$190,000, excluding interest, through July 1, 2025; interest at 8.00%.....	<u>2,165,000</u>
Total General Obligations Bonds.....	<u>26,045,000</u>

DESCRIPTION	AMOUNT
<b>Special Obligations Notes:</b>	
\$4,570,000, Series 1986, payable in semiannual installments ranging from \$75,000 to \$490,000, excluding interest, through July 1, 2006; interest at 9.00% (paid through General Fund).....	\$ 2,040,000
\$1,150,000, Series 1999, payable in semiannual installments ranging from \$130,000 to \$200,000, excluding interest, through July 1, 2005; interest at 7.50%.....	880,000
\$600,000, Series 1999, payable in semiannual installments ranging from \$100,000 to \$140,000, excluding interest, through July 1, 2003; interest at 7.60%.....	<u>390,000</u>
Total Special Obligations Bonds.....	<u>3,310,000</u>
<b>Total General and Special Obligations Bonds.....</b>	<b><u>\$29,355,000</u></b>

The Municipality's general obligations long-term note retirements are appropriated and paid from resources accumulated in the debt service fund (see Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality, and Section 108 Loans are paid through CDBG resources.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2001 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2002	\$ 1,880,000	\$ 1,715,197	\$ 3,595,197
2003	2,060,000	1,928,949	3,988,949
2004	1,815,000	1,791,647	3,606,647
2005	1,810,000	1,661,103	3,471,103
After 2005	<u>21,790,000</u>	<u>14,225,194</u>	<u>36,015,194</u>
<b>TOTAL</b>	<b><u>\$29,355,000</u></b>	<b><u>\$21,322,090</u></b>	<b><u>\$50,677,090</u></b>

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 8 GENERAL LONG-TERM DEBTS (continuation)**

**B. OTHER LONG-TERM DEBTS**

DESCRIPTION	BALANCE JULY 1, 2000	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2001
Property Taxes – MRCC .....	\$ 126,158	\$ 6,344,987	\$ 6,344,987	\$ 126,158
Unemployment .....	373,126	-	135,060	238,066
Oblig. Under Capitalized Leases .....	1,498,634	-	1,093,475	405,159
State Health Insurance Plan .....	2,437,345	-	367,203	2,070,142
Compensated Absences .....	1,865,890	451,896	-	2,317,786
Claims and Judgments .....	1,000,000	-	-	1,000,000
<b>TOTAL .....</b>	<b>\$ 7,301,153</b>	<b>\$ 6,796,883</b>	<b>\$ 7,940,725</b>	<b>\$ 6,157,311</b>

**C. CHANGES IN GENERAL LONG-TERM DEBTS**

The following is a summary of changes in long-term debts for the year ended June 30, 2001:

DESCRIPTION	BALANCE JULY 1, 2000	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2001
General .....	\$19,925,000	\$ 7,165,000	\$ 1,045,000	\$26,045,000
Special .....	4,515,000	-	1,205,000	3,310,000
Others Debts .....	7,301,153	6,796,883	7,940,725	6,157,311
<b>TOTAL .....</b>	<b>\$31,741,153</b>	<b>\$13,961,883</b>	<b>\$10,190,725</b>	<b>\$35,512,311</b>

**NOTE 9 DEBT RETIREMENT**

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 10).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 8). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**NOTE 10 PROPERTY TAXES**

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.53% for real property and 6.53% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 9). 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.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 10 PROPERTY TAXES (continuation)**

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000, to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the exonerated portion of property tax contribution when received from monthly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt.

The revenue for the basic contribution over property not exonerated is recorded in the general fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center. The amortization for the fiscal year of the advances of property tax is as follow:

Property Taxes Receivable at Beginning of the Year .....	\$ 126,158
Plus: Collection of Property Taxes – Current .....	6,344,987
Advance of Property Taxes – Current .....	<u>(6,344,987)</u>
Advance of Property Taxes at June 30, 2001 .....	<u>\$ 126,158</u>

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2001, the Debt Service Fund presented a receivable of \$90,605 for the collection of additional property taxes during the next 60 days after end of year.

**NOTE 11 VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**NOTE 12 INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consists primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 13 EMPLOYEE'S RETIREMENT PLAN**

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

During the fiscal year, the Municipality adopted the requirements of **GASB Number 25** for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws. Under this plan, except for the Head Start Programs' employees, the Municipality's employees and employer portions are contributed, for which, the employee amount is withheld from salaries.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The Municipality contributes to the system 9.275% of the participating employee's salaries.

On September 24, 1999 amendments to the law were approved, which establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution program to the new savings program. Employees in the savings program may now contribute an additional 10% of their monthly salary, and, if at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

<u>Years Of Service</u>	<u>Participant's Age</u>	<u>Pension Benefits</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

continue

# MUNICIPALITY OF AGUADILLA, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2001

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#### NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

Contributions in 2000 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared.

Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2001 was approximately \$627,416. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the year ended June 30, 2001.

Also, the Head Start Program's employees are covered by a Defined Contribution Plan adopted on March 1, 1994. Substantially all employees are eligible for the Plan on or after the date in which the employees complete one year of continued service. Participants can make a voluntary contribution up to 10% of its gross compensation, as defined in the Plan; not to exceed the limit established by law. The Head Start Program (Sponsor) contributes 3% of quarterly gross salary per employee. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1165 (a) and (e) of the Puerto Rico Internal Revenue Code of 1994 (PRIRC), as amended. Participants are 100% vested on both participant's and Sponsor's contributions and earnings since being eligible for participation in the Plan.

Upon termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his account or some other annuity alternative benefits. The Net

Assets Available for Benefits is \$560,759 accordance to general accepted accounting principles (accrual basis). The Plan's Assets are being managed by Cooperativa de Seguros de Vida de Puerto Rico (COSVI) under an investment contract. Such assets are being maintained in COSVI's general account and are credited with estimated earnings on the underlying investments through the year, which are adjusted retroactively after determining actual yield on investments. The estimated interest rate on earnings was 5.58%. Assets are also charged for Plan's withdrawals and administration expenses. The investment contract, included on Net Assets Available for Benefits, approximates fair value. The contract has not defined maturity and, accordingly, the fair value is the amount payable on demand.

Although the Sponsor has not expressed any intention to do so, it has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event of the termination of the Plan, reduction or suspension, the employer shall make no further contributions and the accounts of all participants shall remain fully vested and nonforfeitable.

#### NOTE 14 CLAIMS AND JUDGMENTS

##### A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of six lawsuits related to personnel matter and back pay, to which the legal counsel has estimate a potential loss of \$2,000,000. These lawsuits are in appeal in other Courts. Accordingly, the financial statements include adjustments in the General Long-Term Debt Account Group because will be paid with future resources if the Courts decided in against of the Municipality. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

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# MUNICIPALITY OF AGUADILLA, PUERTO RICO

## NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2001

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#### NOTE 14 CLAIMS AND JUDGMENTS (continuation)

##### B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsels of the Municipality have advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

#### NOTE 15 GASB STATEMENTS NUMBERS 33, 34, 37 AND 38

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management's Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.
- B. Basic Financial Statements – should include:
  1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual

basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements.

- a. Statement of Net Assets
- b. Statement of Activities
2. Fund Financial Statements – Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
3. Notes to the Financial Statements – One set of notes for both financial statements.
- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the Municipality in fiscal year beginning after June 15, 2002. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

**END OF NOTES**

**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY GOVERNMENT AUDITING  
STANDARDS AND OMB CIRCULAR A-133**

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program (USDA) .....	10.558	CCC-07-AG	\$ 423,912
Pass-Through Office of the Governor – Elderly Office			
Child and Adult Care Food Program (USDA) .....	10.558	*	<u>67,628</u>
Total Department of Agriculture .....			<u>491,540</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants (CDBG) .....	14.218		2,973,824
Urban Development Action Grant.....	14.221		444,473
Emergency Shelter Grant Program .....	14.231		142,436
Home Investment Partnership Program (HOME) .....	14.239		504,424
Section 8 Rental Housing Choice Vouchers .....	14.871		<u>1,003,917</u>
Total Department of Housing and Urban Development .....			<u>5,069,074</u>
U.S. Department of Justice:			
Pass-Through Puerto Rico Department of Justice:			
Title V – Delinquency Prevention Program .....	16.548	98-JP-FX-0072	32,806
Local Law Enforcement Block Grant .....	16.592	98-LB-VX-0309 99-LB-VX-0309	58,479
Public Safety Partnership and Community Policing Grants – Universal Hiring Grant .....	16.710		<u>188,919</u>
Total Department of Justice .....			<u>280,204</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward) .....			<u>\$ 5,840,818</u>

\* Not Available

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward) .....			<u>\$ 5,840,818</u>
U.S. Department of Transportation:			
Pass-Through Puerto Rico Highway and Transportation Authority:			
Public Transportation for Non-Urbanized Areas ...	20.507	PR-90-X132	<u>1,484</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through State Governmental Development Bank			
Public Assistance Grant.....	83.544	*	<u>2,878</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of the Governor – Elderly Office:			
Special Program for Aging, Title III, Part C .....	93.044	*	171,784
Pass-Through Administration of Families and Children:			
Head Start Program.....	93.600	02-CH-0483-35	
	93.600	02-CH-0483-36	<u>4,477,278</u>
Total U. S. Department of Health and Human Services.....			<u>4,649,062</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS ...</b>			<b><u>\$10,494,242</u></b>

\* Not Available

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Aguadilla, Puerto Rico**. 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*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the general-purpose financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The **Municipality** in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

**NOTE 3 FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**NOTE 4 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS**

Federal financial assistance expenditures are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Change in Fund Balance – All Governmental Fund Types as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures .....	\$ 9,118,486	\$ 1,375,756	\$10,494,242
State & Municipal Expenditures .....	<u>3,066,510</u>	<u>10,993,782</u>	<u>14,060,292</u>
<b>TOTAL EXPENDITURES.....</b>	<b><u>\$12,184,996</u></b>	<b><u>\$12,369,538</u></b>	<b><u>\$24,554,534</u></b>

continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2001**

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**NOTE 5 LOAN OUTSTANDING**

Federal expenditures for the Community Development Block Grants/Entitlement Grant Program include \$679,113 of repayment of principal and interest made during the year, for which grantor do not imposes continuing compliance requirements.

**NOTE 6 SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule, the **Municipality**, provided federal awards to subrecipients as follows:

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNT PROVIDED TO SUBRECIPIENTS</u>
Community Development Block Grant-Entitlement Grants (CDBG) .....	14.218	\$ 39,450
Emergency Shelter Grant Program (ESG).....	14.231	120,048
HOME Investment Partnership Program (HOME) ..	14.239	<u>202,637</u>
TOTAL .....		<u>\$362,135</u>

**NOTE 7 MAJOR PROGRAMS**

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

**END OF NOTES**



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

**To the Honorable Mayor and  
Members of the Municipal Legislature  
Municipality of Aguadilla, Puerto Rico**

We have audited the financial statements of **Municipality of Aguadilla, Puerto Rico (Municipality)** as of and for the year ended June 30, 2001, and have issued report thereon dated December 6, 2001, which was qualified because we been unable to audit the fixed assets of the General Fixed Assets Account Group, and the transactions not recorded in the Cash Accounts of the General and Special Revenue Funds. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-II-01 and 01-II-02.

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

Page 2

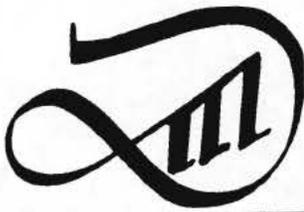
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above being material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated December 6, 2001.

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

  
CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants

Caguas, Puerto Rico  
December 6, 2001





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

**To the Honorable Mayor and  
Members of the Municipal Legislature  
Municipality of Aguadilla, Puerto Rico**

**Compliance**

We have audited the compliance of the **Municipality of Aguadilla, Puerto Rico (Municipality)** 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, 2001. The **Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, the **Municipality** 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, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which 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 01-III-01 through 01-III-04.

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

Page 2

**Internal Control Over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-III-01 and 01-III-02.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

  
CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants

Caguas, Puerto Rico  
December 6, 2001



**PART III**  
**FINDINGS AND QUESTIONED COSTS**

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

Section I – Summary of Auditors' Results

**Financial Statements**

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Reportable condition(s) identified that are not considered being material weaknesses?        Yes   X   None Reported
- Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Reportable condition(s) identified that are not considered being material weaknesses?   X   Yes        None Reported

Type of auditors' report issued on compliance for Major Programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?   X   Yes        No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant/Entitlement Programs (CDBG)
14.871	Section 8 Rental Housing Choice Vouchers
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs: \$314,827

Auditee qualified as low-risk auditee?        Yes   X   No

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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Section II – Financial Statement Findings

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<b>FINDING</b>	<b>NUMBER 01-II-01</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT</b>
<b>CONDITION</b>	During our examination of <b>Municipality's</b> property record and reports we noted the following deficiencies; (1) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balances on the General Ledger; (2) there is not adequate internal control procedures to assure the proper valuation and timeliness of recognition of fixed assets inventory; (3) General Ledger account balances does not reconcile with property subsidiary ledger. <i>(This is a prior year finding.)</i>
<b>CRITERIA</b>	Article 10.002 of State Act Number 81 of August 30, 1991 stated that <b>Municipality</b> should maintain updated property accounting records.
<b>EFFECT</b>	<b>Municipality</b> did not maintain an adequate control of the accountability regarding property transactions.
<b>CAUSE</b>	Evidence that accounting system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
<b>RECOMMENDATION</b>	<b>Municipality</b> should implement internal control procedures in order to comply with this requirement.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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Section II – Financial Statement Findings

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<b>FINDING</b>	<b>NUMBER 01-II-02</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER ACCOUNTING RECORDS</b>
<b>CONDITION</b>	During our examination of <b>Municipality's</b> cash account, we noted that General and Special Revenue Funds cash account balances in General Ledger were not reconciled with adjusted cash balance in bank reconciliation shown overstated amounts by \$482,821 and \$345,965, respectively. <i>(This is a prior year finding.)</i>
<b>CRITERIA</b>	Article 8.010 (c) (2) and (3) of State Act Number 81 of August 30, 1991, as amended, stated that <b>Municipality</b> should maintain accurate accounting records and funds controls.
<b>EFFECT</b>	<b>Municipality</b> did not maintain an adequate control of the accountability regarding cash transactions.
<b>CAUSE</b>	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
<b>RECOMMENDATION</b>	<b>Municipality</b> should records transactions not recorded in the Uniform Computerized Accounting System, reconcile monthly the General Ledger cash account balances with adjusted cash bank balance and implement internal control procedures in order to comply with this requirement.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

Section III – Federal Award Findings and Questioned Costs

<b>FINDING</b>	<b>NUMBER 01-III-01</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>CONDITION</b>	The <b>Municipality</b> retained, in interest bearing accounts, \$100,000 and \$200,000 (\$300,000) of requisition amounts from payments of property acquisition that did not have the required evidence for this type of disbursement. The accounts generated \$3,804.96 and \$13,219.29 (\$17,204.95), respectively, from interest. The interest amount is the result of the time period that each account was opened. The first interest bearing account was opened for eight (8) months and the second was opened for fourteen (14) months. The <b>Municipality</b> did not remit the interest amounts to the Federal Agency as required by federal regulation.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart C, 24 CFR Section 85.21 (b) states that grantees and subgrantees should promptly, but at least quarterly, remit interest earned on advances for the Federal Agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.
<b>CAUSE</b>	Federal Program and Finance Departments did not maintain appropriate cash management procedures in order to remit interest to the Federal Agency.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 24 CFR, Section 85.21(b) of OMB Common Rules.
<b>RECOMMENDATION</b>	We recommend management to develop and implement the necessary procedures in order to improve controls regarding the administration of its bank accounts, to assure compliance with Federal Agency regulations.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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Section III – Federal Award Findings and Questioned Costs

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<b>FINDING</b>	<b>NUMBER 01-III-02</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT STANDARDS</b>
<b>CONDITION</b>	The model for construction contracts over \$10,000.00 used by the <b>Municipality</b> did not have detailed clauses for compliance with provisions for suspension and debarment, Davis-Bacon, contract work hours and safety standards, Clear Air and Clear Water Act Energy Policy and Conservation Act as required by program regulation.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) stated that subgrantee's contract must contain provision in paragraph (i) of this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13) of OMB Common Rules.
<b>CAUSE</b>	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures, in order to assure that contractor complies with some requirements.
<b>RECOMMENDATION</b>	We recommend management to update contract model according with the federal requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

Section III – Federal Award Findings and Questioned Costs

<b>FINDING</b>	<b>NUMBER 01-III-03</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION – 8 RENTAL HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our Housing Quality Standard Inspections test we noticed that the <b>Municipality</b> did not perform supervisory quality control HQS inspections as required by federal regulation.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.405 (b) stated that the <b>Municipality</b> must conduct supervisory quality control HQS inspections. Also, 24 CFR, Subpart A, Section 985.2 (b) stated that in order to conduct the supervisory quality control HQS inspection the <b>Municipality</b> must select an annual sample of files or records drawn in an unbiased manner and made reviewed the selected files or records by a <b>Municipality's</b> supervisor (or by another qualified person other than the person who performed the original work) to determine if the work documented in the files or records conforms to program requirements.
<b>EFFECT</b>	<b>Municipality</b> does not comply with 24 CFR, Subpart I, Section 982.405 (b), and Subpart A, Section 985.2 (b).
<b>CAUSE</b>	<b>Municipality</b> did not perform supervisory quality control HQS inspections as required by federal regulation.
<b>RECOMMENDATION</b>	We recommend management to implement the necessary procedures in order to make sure that inspections are performed in accordance to, and in compliance with federal regulation.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS**

**FOR THE YEAR ENDED JUNE 30, 2001**

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
<b>(1) Audit Findings that have been fully corrected:</b>					
2000	00-III-01	<b>Municipality</b> held excess of cash.	14.855-14.857	NONE	System and procedures corrected.
	00-III-02	<b>Municipality</b> does not determine and record properly the CDBG program income collected.	14.218	NONE	System and procedures corrected.
	00-III-03	<b>Municipality</b> did not maintain a current and complete General Ledger which adequately identify the source and application of Program funds.	14.855-14.857	NONE	System and procedures corrected.
1999	99-III-01	<b>Municipality</b> held excess of cash.	14.855-14.857	NONE	System and procedures corrected.
	99-III-03	<b>Municipality</b> did not maintain a current and complete General Ledger which adequately identify the source and application of Program funds.	14.855-14.857	NONE	System and procedures corrected.

**(2) Audit Findings not Corrected or Partially Corrected:**

2000	00-III-04	<b>Municipality</b> did not obtain the required licenses, for various Head Start Centers.	93.600	NONE	The Head Start Office will take immediate action to obtain the referred missing licenses from each regulatory agency. Director of each Center will also be oriented to take timely action from now on to keep all licenses from each regulatory agency.
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**(3) Corrective action taken is significantly different from corrective action previously reported:**

NONE

**(4) Audit findings is no longer valid:**

NONE

**END OF SCHEDULE**

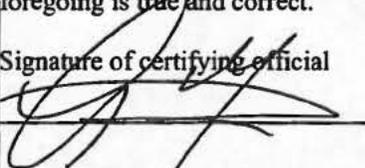
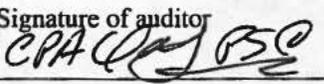
**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS**

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

**Form SF-SAC(3-20-2001) OMB #0348-0057**

**Report ID : 26142**

**12/27/01**

Part I: GENERAL INFORMATION	
1. Fiscal year ending date for this submission (mm/dd/yyyy) 06/30/2001	2. Type of A-133 audit <input checked="" type="radio"/> Single audit
3. Audit period covered <input checked="" type="radio"/> Annual	CENSUS USE ONLY 4. Date received by clearinghouse
5. Employer Identification Number (EIN) a. Auditee EIN 660433570	b. Are multiple EINS covered in this report? <input checked="" type="radio"/> No
6. AUDITEE INFORMATION	7. AUDITOR INFORMATION
a. Auditee name MUNICIPALITY OF AGUADILLA	a. Auditor name CPA DIAZ-MARTINEZ, PSC
b. Auditee address (Number and street) P.O. BOX 1008	b. Auditor address (Number and street) P.O. BOX 8369
City AGUADILLA	City CAGUAS
State Zip Code PR 00605 -	State Zip Code PR 00726 - 8369
c. Auditee contact Name CARLOS MENDEZ MARTINEZ	c. Auditor contact Name JOSE E. DIAZ-MARTINEZ
Title MAYOR	Title PRESIDENT
d. Auditee contact telephone ( 787 ) 891 - 1005	d. Auditor contact telephone ( 787 ) 746 - 0510
e. Auditee contact FAX (Optional) ( 787 ) 882 - 2550	e. Auditor contact FAX (Optional) ( 787 ) 746 - 0525
f. Auditee contact E-mail (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 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is <b>not a substitute</b> 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 01 / 09 / 02	Signature of auditor  Date 01 / 08 / 02
Name/Title of certifying official CARLOS MENDEZ MARTINEZ, MAYOR	

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 26142

<b>Part I: GENERAL INFORMATION - Continued</b>	
8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (x) one box)	
<input type="radio"/> 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	
<b>Part II: FINANCIAL STATEMENTS (To be completed by auditor)</b>	
1. Type of audit report (Mark (x) one box)	
<input type="radio"/> Qualified opinion	
2. Is a "going concern" explanatory paragraph included in the audit report?	
<input type="radio"/> No	
3. Is a reportable condition disclosed?	
<input type="radio"/> Yes	
4. Is any reportable condition reported as a material weakness?	
<input type="radio"/> Yes	
5. Is a material noncompliance disclosed?	
<input type="radio"/> No	
<b>Part III: FEDERAL PROGRAMS (To be completed by auditor)</b>	
1. Type of audit report on major program compliance	
<input checked="" type="checkbox"/> Unqualified 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)	
<input type="radio"/> No	
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ .520(b)) Round to the nearest dollar.	
\$314827.00	
4. Did the auditee qualify as a low-risk auditee? (§ .530)	
<input type="radio"/> No	
5. Is a reportable condition disclosed for any major program? (§ .510(a)(1))	
<input type="radio"/> Yes	
6. Is any reportable condition reported as a material weakness? (§ .510(a)(1))	
<input type="radio"/> No	
7. Are any known questioned costs reported? (§ .510(a)(3) or (4))	
<input type="radio"/> No	
8. Was a Summary Schedule of Prior Audit Findings prepared? (§ .315(b))	
<input type="radio"/> Yes	
9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to direct funding. (Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.	
14	<input checked="" type="checkbox"/> Department of Housing and Urban Development
In addition, one copy each of the reporting package is required for:	
1	.....the Federal Audit Clearinghouse archives
0	.....and, if not marked above, the cognizant agency (if identified in Part I, Item 9)
2	.....Total number of reporting packages to be submitted

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 26142

Part III: FEDERAL PROGRAMS Continued									
10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
Row	10a. CFDA Number		10b. Research and development	10c. Name of Federal Program	10d. Amount expended in Whole Numbers	10e. Direct Award	10f. Major program	11a. Type of compliance requirement (3)	11b. Audit finding reference # (s) (4)
	Federal Agency Prefix (1)	Extension (2)							
1	10.	558	<input checked="" type="checkbox"/> N	CHILD AND ADULT CARE FOOD PROGRAM	\$ 491540 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
2	14.	218	<input checked="" type="checkbox"/> N	COMMUNITY DEVELOPMENT BLOCK GRANT/ ENTITLEMENT	\$ 2973824 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	C, I	01-III-01; 01-III-02
3	14.	221	<input checked="" type="checkbox"/> N	URBAN DEVELOPMENT ACTION GRANT	\$ 444473 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
4	14.	231	<input checked="" type="checkbox"/> N	EMERGENCY SHELTER GRANT PROGRAM	\$ 142436 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
5	14.	239	<input checked="" type="checkbox"/> N	HOME INVESTMENT PARTNERSHIP PROGRAM	\$ 504424 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
6	14.	871	<input checked="" type="checkbox"/> N	SECTION 8 RENTAL HOUSING CHOICE VOUCHERS	\$ 1003917 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	01-III-03
7	16.	548	<input checked="" type="checkbox"/> N	TITLE V DELINQUENCY PREVENTION PROGRAM	\$ 32806 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
8	16.	592	<input checked="" type="checkbox"/> N	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 58479 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
9	16.	710	<input checked="" type="checkbox"/> N	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANT	\$ 188919 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
10	20.	507	<input checked="" type="checkbox"/> N	PUBLIC TRANSPORTATION FOR NONURBANIZED AREAS	\$ 1484 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
11	83.	544	<input checked="" type="checkbox"/> N	PUBLIC ASSISTANCE GRANT	\$ 2878 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
12	93.	044	<input checked="" type="checkbox"/> N	SPECIAL PROGRAM FOR AGING, TITLE III, PART C	\$ 171784 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
13	93.	600	<input checked="" type="checkbox"/> N	HEAD START PROGRAM	\$ 4477278 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y	N	01-III-04
<b>Computer Generated Total Federal Awards Expended:</b>				<b>\$ 10494242</b>					
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>\$10494242</b>					

\*Footnotes for Part 3 - Item 10 and Item 11

- 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.
- 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 weakness), questioned costs, fraud, and other items reported under §\_510 (a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and real property management

- G. Matching, level of effort, earmarking
- H. Period of availability of funds
- I. Procurement
- J. Program income
- K. Real property acquisition and relocation assistance

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

4. N/A for None.

UNIDAD DE COMERCIO  
 RECIBIDO  
 05 JUN 12 6N 1:32  
 COMISIÓN DE ADMINISTRACIÓN  
 DEL COMERCIO

**Municipio Autónomo de Aguadilla**

Apartado 1008  
Aguadilla, PR 00605  
Tel. (787) 891-1005



**Hon. Carlos Méndez**  
*Alcalde*

January 10, 2002

CPA Díaz Martínez- CSP  
Apartado 8369  
Caguas, PR 00726-8369

Enclosed please find the corrective action plan for the findings on single audit for the years ended June 30, 2001

For your information

Cordially,

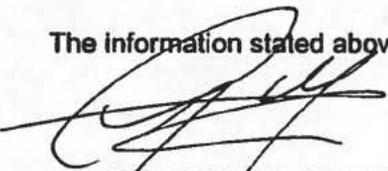
A handwritten signature in black ink, appearing to be 'C. Méndez', written over the word 'Cordially'.

Hon. Carlos Méndez  
mayor

MUNICIPALITY OF AGUADILLACORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2001

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-11-01	Financial Statement Findings  FINANCE DIRECTOR	Reportable condition over property, plant and equipment	(a) The Municipality will create a construction in progress account and will also recover information about all acquisitions of property on the proposed Paseo Real Marina. It will reclassify such acquisitions as part of the construction	June/2002
			in progress account of Paseo Real Marina.  (b) Employees of the Finance Department will be oriented in order to recognize as fixed assets acquisitions as funds for such acquisitions are disbursed, at the cost plus other related expenses.	completed

The information stated above has been determined to be accurate based upon information available as of \_\_\_\_\_.

  
CARLOS MENDEZ MARTINEZ

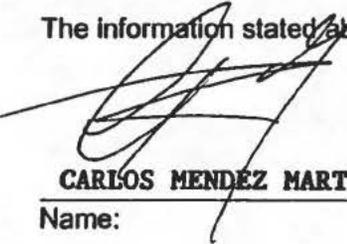
Name: \_\_\_\_\_

Position: MAYOR OF AGUADILLA

MUNICIPALITY OF AGUADILLACORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2001

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-11-01	Financial Statement Findings  FINANCE DIRECTOR	Reportable condition over property, plant and equipment	(c) The Finance Department will analyze the discrepancies among the general ledger and the property subsidiary and make all necessary adjustments.	JUNE/2002

The information stated above has been determined to be accurate based upon information available as of \_\_\_\_\_.

  
CARLOS MENDEZ MARTINEZ

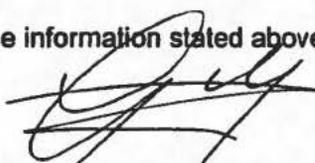
Name: \_\_\_\_\_

Position: MAYOR OF AGUADILLA

MUNICIPALITY OF AGUADILLACORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2001

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-111-01	FINANCE DIRECTOR	Community Development Block Grant (CFDA NO. 14.218) U.S. Department of Housing and Urban Development	The Municipality has oriented the C.D.B.G. and the Municipality Finance Department, regarding interests earned on C.D.B.G. funds, also the interests referred to in this finding, were properly returned to the U.S. Treasury.	Completed

The information stated above has been determined to be accurate based upon information available as of \_\_\_\_\_.

  
**CARLOS MENDEZ MARTINEZ**

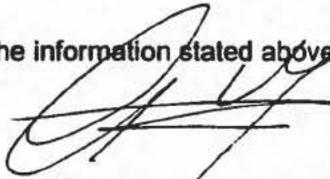
Name:

Position: MAYOR OF AGUADILLA

MUNICIPALITY OF AGUADILLACORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2001

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-11-02	FINANCE DIRECTOR	Reportable condition over accounting records	The Municipality of Aguadilla contracted the services of CPA González Torres to analyze the accounting records of the general and special funds and recommend the necessary adjustments that should be made in order to reconcile the general fund and special fund cash accounts with their specific bank reconciliation. The contract is actually in progress and 60% completed.	FEBRUARY 28, 2002

The information stated above has been determined to be accurate based upon information available as of \_\_\_\_\_.

  
CARLOS MENDEZ MARTINEZ

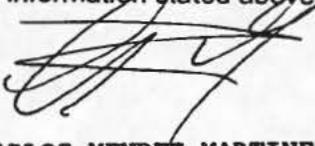
Name: \_\_\_\_\_

Position: MAYOR OF AGUADILLA

MUNICIPALITY OF AGUADILLACORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2001

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-111-03	Section 8 Director	Section-8 Rental Housing choice vouchers (CFDA No. 14.871) U.S. Department of Housing and Urban Development.	Aguadilla Municipality complied with this finding as of September 20th, 2001. Mr. Alvin Cubano, San Sebastian's Inspector performed quality control HQS inspections in some samples to comply with this federal regulations.	COMPLETED
			Aguadilla will implement annual HQS cross inspections with HQS Inspectors from the jurisdiction.	

The information stated above has been determined to be accurate based upon information available as of \_\_\_\_\_.

  
CARLOS MENDEZ MARTINEZ

Name:

Position: MAYOR OF AGUADILLA