

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE AGUAS BUENAS

AUDITORIA 2000-01

30 DE JUNIO DE 2001

MUNICIPALITY OF AGUAS BUENAS
COMMONWEALTH OF PUERTO RICO
AGUAS BUENAS, PUERTO RICO

SINGLE AUDIT REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2001

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VALDES, GARCIA & MARIN

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To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Aguas Buenas, Puerto Rico

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Municipality of Aguas Buenas, Puerto Rico, as of June 30, 2001 and for the year then ended, as listed in the accompanying 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 6, because of the inadequacy of the accounting records, we were unable to form an opinion regarding the amounts at which property and equipment are recorded in the General Fixed Assets Account Group of the accompanying general purpose financial statements at June 30, 2001 amounting to \$15,074,430.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had records concerning property and equipment been adequate, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Aguas Buenas as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued a report dated December 18, 2001, on our consideration of the Municipality of Aguas Buenas internal control over financial reporting and our tests of its compliance with certain provisions of laws, contracts and grants.

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

San Juan, Puerto Rico
December 18, 2001



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to the original.

MUNICIPALITY OF AGUAS BUENAS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	<u>Governmental Fund Types</u>				<u>Account Groups</u>		<u>Totals</u> (Memorandum only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	
ASSETS AND OTHER DEBITS							
Assets							
Cash and cash equivalents	\$1 402 607	\$1 776 356	\$ -	\$ 434 474	\$ -	\$ -	\$ 3 613 437
Cash with fiscal agent	-	-	528 382	-	-	-	528 382
Cash with Government Development Bank for Puerto Rico	45 054	-	-	577 188	-	-	622 242
Accounts receivable							
Municipal license tax	27 822	-	-	-	-	-	27 822
Due from agencies	-	-	125 829	-	-	-	125 829
Property and equipment							
Land and buildings	-	-	-	-	11 274 467	-	11 274 467
Furniture, machinery and equipment	-	-	-	-	3 799 963	-	3 799 963
Other debits							
Amount to be provided for the retirement of:							
Accrued vacations	-	-	-	-	-	599 645	599 645
General obligation bonds	-	-	-	-	-	1 499 789	1 499 789
Property tax advances	-	-	-	-	-	137 240	137 240
Amount available in debt service fund	-	-	-	-	-	654 211	654 211
Total assets and other debits	\$1 475 483	\$1 776 356	\$654 211	\$1 011 662	\$15 074 430	\$2 890 885	\$22 883 027

(Continues)

See notes to general purpose financial statements.

MUNICIPALITY OF AGUAS BUENAS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
(CONTINUED)
JUNE 30, 2001

	<u>Governmental Fund Types</u>				<u>Account Groups</u>		<u>Totals (Memorandum only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	
<u>LIABILITIES, FUND EQUITY AND OTHER CREDITS</u>							
Liabilities							
Accounts payable	\$ 744 938	\$ 199 632	\$ -	\$ -	\$ -	\$ -	\$ 944 570
Property tax advances	-	-	-	-	-	137 240	137 240
Due to other agencies	613 248	25 948	-	-	-	-	639 196
Accrued compensated absences	-	-	-	-	-	599 645	599 645
General obligations bonds payable	-	-	-	-	-	2 154 000	2 154 000
Deferred revenues							
Municipal license tax	330 640	-	-	-	-	-	330 640
Federal Financial Assistance	-	335 211	-	-	-	-	335 211
Other	-	<u>1 215 565</u>	-	-	-	-	<u>1 215 565</u>
Total liabilities	<u>1 688 826</u>	<u>1 776 356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 890 885</u>	<u>6 356 067</u>
Fund equity (deficit) and other credits							
Investment in general fixed assets	-	-	-	-	15 074 430	-	15 074 430
Unreserved:							
Designated for debt service	-	-	654 211	-	-	-	654 211
Non-designated fund equity (deficit)	<u>(213 343)</u>	<u>-</u>	<u>-</u>	<u>1,011 662</u>	<u>-</u>	<u>-</u>	<u>798 319</u>
Total fund equity (deficit)	<u>(213 343)</u>	<u>-</u>	<u>654 211</u>	<u>1 011 662</u>	<u>15 074 430</u>	<u>-</u>	<u>16 526 960</u>
Total liabilities, fund equity (deficit) and other credits	<u>\$1 475 483</u>	<u>\$1 776 356</u>	<u>\$654 211</u>	<u>\$1 011 662</u>	<u>\$15 074 430</u>	<u>\$2 890 885</u>	<u>\$22 883 027</u>

See notes to general purpose financial statements.

MUNICIPALITY OF AGUAS BUENAS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>				<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>(Memorandum only)</u>
<u>Revenues</u>					
Property taxes	\$4 566 670	\$ -	\$388 811	\$ -	\$ 4 955 481
Municipal license tax	266 617	-	-	-	266 617
Licenses, fees and permits	62 494	-	-	-	62 494
Intergovernmental	729 959	1 566 347	-	149 989	2 446 295
Rent of properties	83 565	-	-	-	83 565
Interest	52 591	-	-	-	52 591
Other	647 338	1 263 772	-	-	1 911 110
Total revenues	<u>6 409 234</u>	<u>2 830 119</u>	<u>388 811</u>	<u>149 989</u>	<u>9 778 153</u>
<u>Expenditures</u>					
General government	2 876 560	-	-	-	2 876 560
Public safety	233 493	6 117	-	-	239 610
Public works	2 016 335	607 376	-	-	2 623 711
Health, sanitation and welfare	204 609	2 216 626	-	-	2 421 235
Education and recreation	143 743	-	-	-	143 743
Other	419 619	-	-	-	419 619
Capital outlays	-	-	-	282 617	282 617
Debt service:					
Principal retirement	-	-	275 000	-	275 000
Interest	-	-	137 306	-	137 306
Total expenditures	<u>5 894 359</u>	<u>2 830 119</u>	<u>412 306</u>	<u>282 617</u>	<u>9 419 401</u>

(Continues)

See notes to general purpose financial statements.

MUNICIPALITY OF AGUAS BUENAS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>				<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>(Memorandum only)</u>
Excess of revenues over (under) expenditures	\$ 514 875	\$ -	\$(23 495)	\$ (132 628)	\$ 358 752
Fund balances (deficit) at beginning of year	<u>(728 218)</u>	<u>-</u>	<u>677 706</u>	<u>1 144 290</u>	<u>1 093 778</u>
Fund balances (deficit) at end of year	<u>\$ (213 343)</u> =====	<u>\$ -</u> =====	<u>\$654 211</u> =====	<u>\$1 011 662</u> =====	<u>\$1 452 530</u> =====

See notes to general purpose financial statements.

MUNICIPALITY OF AGUAS BUENAS

COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (BUDGETARY BASIS) -
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Property taxes	\$1 473 073	\$1 520 678	\$ 47 605
Municipal license tax	300 000	266 617	(33 383)
Licenses, fees and permits	101 000	62 494	(38 506)
Intergovernmental	4 103 744	4 164 762	61 018
Rent of properties	55 000	83 565	28 565
Sale of properties	1 000	-	(1 000)
Interest	50 000	52 591	2 591
Other	<u>100 300</u>	<u>234 061</u>	<u>133 761</u>
Total revenues	<u>6 184 117</u>	<u>6 384 768</u>	<u>200 651</u>
<u>Expenditures</u>			
General government	2 997 249	2 958 892	38 357
Public safety	247 150	233 493	13 657
Public works	2 217 258	2 102 891	114 367
Health, sanitation and welfare	211 784	204 609	7 175
Education and recreation	<u>143 863</u>	<u>143 743</u>	<u>120</u>
Total current expenditures	5 817 304	5 643 628	173 676
Debt service			
Principal retirement and interest payment	<u>366 813</u>	<u>412 306</u>	<u>(45 493)</u>
Total expenditures	<u>6 184 117</u>	<u>6 055 934</u>	<u>128 183</u>
Excess of revenues over expenditures	\$ - =====	\$ 328 834 =====	\$ 328 834 =====

See notes to general purpose financial statements.

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separated and independent from the government of the Commonwealth of Puerto Rico under Law No. 81 of August 31, 1991 known as "Ley de Municipios Autónomos". The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

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

Accounting policies

The accounting policies of the Municipality are in accordance with the generally accepted accounting principles applicable to governmental entities. The following is a summary of the most significant policies:

Financial reporting entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", of the Governmental Accounting Standards Board ("GASB"). 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

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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. Based on the above criteria management has determined that there are no potential component units which should be included in the accompanying general purpose financial statements.

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 accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Amounts in the "totals-memorandum only" columns in the combined general-purpose financial statements represent a summation of the financial statements line items of the fund types and account groups and are presented only for analytical purposes.

The summation includes a) fund types and account groups that use different basis of accounting, b) interfund transactions that have not been eliminated and c) the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "totals-memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or the total revenues and expenditures of the Municipality.

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MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The following fund types and account groups are used by the Municipality:

Governmental Funds Types

Governmental funds are used to account for the general government functions of the Municipality. The following are the Municipality's governmental fund types:

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

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

Capital Project Fund - Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General-Long Term Account Group, not in the governmental funds.

The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations. Since they do not affect net current assets, such long-term accounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

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MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available to pay liabilities of the current period.

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 two types of these revenues. In one, 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. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met.

Municipal license taxes are recorded as revenues when levied, even though a portion of the taxes may be collected in the following year. Licenses and permits, sale of property and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received.

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Municipality reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Municipality has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation and sick leave pay, and (2) principal and interest on general long-term debt, which is recognized when due.

Budgets and Budgetary Accounting

The Municipality follows these procedures in establishing the budgetary data reflected in the combined financial statements:

1. In accordance with the "Ley de Municipios Autónomos" of August 31, 1991, prior to June of each year, the Mayor submits to the Municipal Assembly a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the last year.
2. The budget document is available for public inspection prior to its approval by the Municipal Assembly.
3. Prior to June 1 or 10 days after submitted to the Municipal Assembly, the budget is legally enacted through passage of an ordinance.

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MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

4. The Mayor is required by the "Ley de Municipios Autónomos" to present before October 15 the results of operations of the preceding year.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund.

6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the combined financial statements.

7. Budgetary data for the Special Revenue funds 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.

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

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

- Encumbrances are considered as expenditures for budgetary purposes.
- Nonbudgeted funds of current year included within the general fund are not included in the budgetary basis. These funds are composed principally of budgetary surpluses of prior years.

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MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Compensated absences

The Municipality accounts for compensated absences in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences".

The employees of the Municipality are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time accumulated is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of 90 days.

In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. The remainder of the compensated absences liability is reported in the general-long term debt account group.

Risk management

The Municipality is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Insurance coverage is obtained for claims arising from such matters.

Inventories

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

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Cash equivalents

The Municipality considers investment with original maturities of less than three months to be cash equivalents.

Pension Plan

The management of the Municipality adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 27 "Accounting for Pensions by States and Local Governmental Employers".

The GASBS No. 27 establishes standards of accounting and financial reporting for pension expenditures/expense and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

Total columns (Memorandum only)

Total columns in the general-purpose financial statements are captioned "Totals-Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

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MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

New accounting pronouncement

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement establishes new financial reporting requirements for state and local governments. The statement will require, among other, the inclusion of management's discussion and analysis of the entities' financial activities along with other required supplementary information. Entities such as the Municipality with total annual revenues of less than \$10 million or more should apply this statement for periods beginning after June 15, 2002.

Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

NOTE 2 CASH

The Municipality is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Municipality. The Municipality's deposits in commercial banks as of June 30, 2001, amounting to \$3,613,437 were covered by Federal Depository Insurance Corporation up to \$100,000 per institution or by collateral held by the Puerto Rico Treasury Department in the Municipality's name. Cash with fiscal agent and the other cash are maintained in Government Development Bank for Puerto Rico and are not collateralized.

Proceeds from bonds issued by the Government Development Bank (GDB) for the Municipality are held by the GDB and transferred to the Municipality as needed.

MUNICIPALITY OF AGUAS BUENAS
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 3 CASH WITH FISCAL AGENT

An annual special tax of 1% of the assessed value of all real property is levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality. At June 30, 2001, cash retained by the Municipal Revenues Collection Center amounted to \$528,382.

NOTE 4 MUNICIPAL LICENSE TAX

The Municipal license tax is levied annually 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 Act of Puerto Rico. All taxpayers are required to file their declarations by April 25 of each year.

The municipal license tax rates are as follows:

- a. 1.50% for financial institutions
- b. 0.50% for all other organizations

Taxes are payable in two equal semi-annual installments on July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made before its due date on April 25.

Collection of taxes applicable to the next fiscal year are recorded as deferred revenues in the General Fund. The Municipality collected in advance during the current year \$330,640 corresponding to the next fiscal year municipal license tax.

NOTE 5 INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenues consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Energy and Power Authority Grants and subsidies received from the Commonwealth of Puerto Rico including, among others, a general subsidy for capital improvements.

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 5 INTERGOVERNMENTAL REVENUES

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to capital improvements which are accounted for through the capital project funds.

In addition to the above mentioned intergovernmental revenues the Municipality receives federal grants which are accounted for through the special revenue fund. The federal grants are recorded under the deferred method of accounting; and therefore, revenues are recognized based upon the expenditures recorded.

NOTE 6 PROPERTY AND EQUIPMENT

The Municipality commenced the recopilation of its property records to determine the amount invested in general property and equipment. This process requires the identification of all real and personal property through physical inventories and its subsequent valuation. This process has not been completed and the Municipality has not been able to determine its real investment in general property and equipment for recording in the accounts and its accuracy for inclusion in the combined financial statements.

The management of the Municipality has estimated its property and equipment and its changes during the year ended June 30, 2001 as follows:

<u>Asset class</u>	Balance July 1, 2000 (Unaudited)	<u>Additions</u>	<u>Retirements</u>	Balance June 30, 2001 (Unaudited)
Land and buildings	\$11 274 467	\$ -	\$ -	\$11 274 467
Furniture, machinery and equipment	<u>3 721 381</u>	<u>85 147</u>	<u>6 565</u>	<u>3 799 963</u>
	\$14 995 848 =====	\$ 85 147 =====	\$ 6 565 =====	\$15 074 430 =====

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 7 COMPENSATED ABSENCES

Employees are entitled to 30 days vacations leave and 18 days sick vacations leave per year. A maximum of 60 days of regular vacations and 90 days for sick leave can be accumulated at the end of a calendar year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement.

In accordance with the above criteria the Municipality has accrued a liability for vacations earned but not taken by employees in the general long-term debt account group in the amount of \$599,033.

As per Law Number 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employees will have the right to accumulate the excess of 90 days in sick leave until December 31st of each year. That excess should be paid to the employee before March 31st of the following year.

NOTE 8 DUE TO OTHER AGENCIES

The balance of this account at June 30, 2001 consists of the following:

General Fund:

Puerto Rico Electric Power Authority	\$ 12 623
Puerto Rico Water and Sewer Authority	95 834
General Service Administration	6 530
Department of Labor and Human Resources	184 522
Other municipalities	159 365
CRIM	137 240
Retirement system	16 122
State Insurance Fund	<u>1 012</u>
	\$613 248
	=====

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9 DEBT SERVICE FUND

Sources of debt service fund consist primarily of the ad-valorem property taxes which are recognized as revenue when they are collected by the Municipal Revenue Collection Center. The Municipal Revenues Collection Center withholds these collections for the debt service requirements of the general obligations bonds issued by the Municipality. Principal and interest on these bonds are generally paid by the Governmental Development Bank from funds transferred from the Municipal Revenues Collection Center which were obtained from the ad-valorem taxes.

NOTE 10 LONG-TERM DEBT

The following is a summary of changes in general obligations for the year ended June 30, 2001:

Total debt as of June 30, 2000	\$2 429 000
Less: current retirement of principal	<u>(275 000)</u>
Total debt as of June 30, 2001	\$2 154 000 =====

The following is a summary of general bonds and special obligations as of June 30, 2001:

\$920,000 Public Work Bonds Serial 1995, due in annual principal installments ranging from \$10,000 to \$85,000 through July 1, 2020, interest rate is variable not to exceed 6.875%.	\$ 850 000
\$600,000 Public Works Bonds 1990, due in annual principal installments ranging from \$14,000 to \$48,000 through January 1, 2015, interest rate is 6% fixed.	462 000
\$400,000 Bond Anticipation Note due March 1, 2018, with fixed interest rate of 5.63%.	347 000
\$420,000 Serial Bonds 1989, due in annual principal installment ranging from \$15,000 to \$50,000 through July 1, 2004, interest rate is variable not to exceed 8.6%.	<u>175 000</u>
Sub-total	<u>1 834 000</u>

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10 LONG-TERM DEBT (CONTINUED)

Sub-total	\$1 834 000
\$290,000 General Obligation Notes, serial 1997-98 due in annual principal installments ranging from \$50,000 to \$65,000 through July 1, 2002, interest rate is variable not to exceed 8.00%.	125 000
\$255,000 general obligation notes, serial 1998-99 due in annual principal installments ranging from \$30,000 to \$45,000 through July 1, 2005, interest rate is variable not to exceed 7.00%.	<u>195 000</u>
	<u>\$2 154 000</u> =====

The annual requirements to amortize the general obligation bonds outstanding as of June 30, 2001 during the next five years and thereafter are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Total</u>
2002	\$ 192 000
2003	199 000
2004	147 000
2005	154 000
2006	117 000
Thereafter	<u>1 345 000</u>
	<u>\$2 154 000</u> =====

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico which limit the amount of bond debt to 10% of the assessed valuation of the real property located in the Municipality of Aguas Buenas.

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10 PENSION PLAN

The Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality of Aguas Buenas, Puerto Rico under age 55 at the date of employment become members of the System as a condition to their employment.

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

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

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

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

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10 PENSION PLAN (CONTINUED)

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

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447, to establish, among others, a defined contribution savings plan program (the Program) to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contribution and are rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant account semi-annually.

The Municipality is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for monthly benefit during the participant's life and 50% of such monthly benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10 PENSION PLAN (CONTINUED)

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The Municipality of Aguas Buenas, Puerto Rico contributions are 9.275% of gross salary. Total employee and employer contributions during the year ended June 30, 2001 for the Municipality of Aguas Buenas, amounted to approximately \$86,000 and \$103,000, respectively. Total payroll covered for the year was approximately \$1,118,000.

For the two preceding fiscal years, the Municipality of Aguas Buenas contributed approximately \$99,000 and \$89,000 respectively.

Additional information on ERS is provided in its financial statements for the year ended June 30, 2000, a copy of which can be obtained from Lcda. Marisol Marchand, Administrator, Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00940.

NOTE 11 PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Aguas Buenas and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of assessment. The annual tax rate for fiscal year ended June 30, 2001 is 8.08% for real property and 6.08% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico.

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 11 PROPERTY TAXES (CONTINUED)

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

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000. However, the Municipality receives the full amount levied.

The amount due at June 30, 2001 by the CRIM to the Municipality and the amount advanced during 2001, are recorded as property taxes revenues in the general fund. No income was recognized from property taxes levied but not collected because the Municipality is not able to determine the amount of such receivable at June 30, 2001. The records for such receivables are kept and maintained by the Municipal Revenue Collection Center.

The additional tax is recorded as revenue in the Debt Service Fund when collected, and notified to the Municipality by the Municipal Revenue Collection Center.

NOTE 12 FUND EQUITY (RESERVES AND DESIGNATIONS)

Fund deficit in the General Fund of \$213,343 is primarily attributable to additional expenditures in general government administration area during the last four years. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures and obtain additional sources of revenues.

Deficits incurred in years prior to 1995 were to be amortized over 30 years and are provided for in the annual budget of the Municipality. Deficits since 1995 have not been provided for by the Municipality in its current budget. The Municipality is required to provide funds in their current budget to cover these deficits.

(Continues)

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 12 FUND EQUITY (RESERVES AND DESIGNATIONS (CONTINUED))

Designated for debt service - In accordance with legal restrictions, these amounts are reserved for payments of principal and interest of general long-term debt maturing in later years. The resources for this reserve arise from the additional special contribution of property taxes.

NOTE 13 BUDGETARY COMPARISONS

As explained in Note 1, the Statement of Revenues and Expenditures Budget and Actual, was prepared in accordance with the budgetary basis. This method is not in accordance, in some aspects, with generally accepted accounting principles.

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

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles (GAAP) basis	\$6 409 234	\$5 894 359
Less current revenues included in budgetary basis but not in GAAP basis	(413 277)	-
Less current expenditures included in budgetary basis but not in GAAP basis	-	(250 731)
Plus special property taxes collected designated for payment of debt recorded in Debt Service Fund	<u>388 811</u>	<u>412 306</u>
Budgetary basis	<u>\$6 384 768</u> =====	<u>\$6 055 934</u> =====

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 14 CLAIMS AND CONTINGENCIES

The Municipality is defendant in a case where the plaintiffs claim unjust separation of employment and damages thereon. The Municipality prevailed in an appeal before the Circuit Court of Appeals. The case was under review by the Supreme Court. Should the Supreme Court decided against the Municipality and that the Circuit Court made an erroneous decision. The Municipality may be liable for a potential loss of approximately \$3,000,000.

The Municipality was also involved in various cases involving claims and collection of moneys. Some claims are not covered by the Municipality's insurance policy. In the opinion of the outside legal counsels of the Municipality the ultimate outcome of pending court cases cannot be determined at this time. However the range of potential loss can be estimated in the aggregate of \$65,000.

As per Act No. 72 of September 7, 1993, "Act of the Health Insurance of P.R. Administration", the Health Insurance Administration (HIA) should negotiate with the Municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. As of June 30, 1999 the amount billed by HIA to the Municipality amounted to \$961,337. The Municipality alleged that the HIA never discussed the amount to be contributed by the Municipality and it was determined unilaterally. The Municipality's management decided not to record the liability on the accompanying financial statements.

On July 7, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from March 1996 to June 30, 1997 will be amortized using the Municipality's lottery income that will be earned on the additional lottery games assigned directly to ASES.

The Municipality receives funds under various federal grant programs and such awards are to be expended in accordance with the provisions of the various grants agreements. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of non-compliance. Management believes that they have complied with all aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.

MUNICIPALITY OF AGUAS BUENAS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 15 MUNICIPAL LANDFILL

The Municipality operated a solid waste landfill that was closed during 1994. Local and federal laws require the Municipality to perform closure procedures and to monitor and maintain the site for thirty years thereafter. The closure costs were incurred as of June 30, 1998 and were mostly provided by federal awards under CDBG programs. Total closure costs incurred as of June 30, 1998 were approximately \$980,000. Estimated future costs of monitoring and maintaining the site for the next years as required by the U.S. Environmental Protection Agency are estimated at \$50,000.

NOTE 16 ESPIRITU SANTO HOUSING PROJECT

On March 1st, 1998 the Municipality signed a Multiple Family Housing Assumption Agreement with the U.S. Farmers Home Administration for the transfer and assumption of the mortgage loan of the Multi Family Housing Project Espiritu Santo. This project consist of a housing development that includes land, buildings and improvements providing 50 dwelling units located in Aguas Buenas, Puerto Rico. The project is operated under Section 515 of the USDA-Rural Development and regulated by the U.S. Department of Housing and Urban Development and the USDA Rural Development with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreement with HUD and a significant portion of the Project's rental income is received from HUD. The management of the Municipality did not consider this entity as a component unit to be included in the general-purpose financial statements. Audited financial statements of the project at June 30, 2001 are available from the Municipality.

SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF AGUAS BUENAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/Passed-Through Grantor <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Passed-Through Grantor's Number</u>	<u>Expenditures (Modified Accrual Basis)</u>
U.S. Department of Housing and Urban Development Direct Programs: Section 8 - Housing Choice Vouchers (RQ082 V0)	14.871	N/A	\$ 770 408
Passed-Through - Office of the Commissioner of Municipal Affairs Programs: State Block Grant	14.228	98-47	607 340
U.S. Department of Agriculture - Passed-Through Office of Child Services and Community Development Program: Child and Adult Care Food	10.558	N/A	263 398
U.S. Department of Federal Emergency Management Agency Disaster Assistance	83.516	842-DR-PR	<u>163 157</u>
Total Expenditures of Federal Awards			\$1 804 303 =====

CFDA - Catalog of Federal Domestic Assistance
N/A Not available

MUNICIPALITY OF AGUAS BUENAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Aguas Buenas and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with generally accepted accounting principles.
- 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 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Type in the Special Revenue Fund.

**ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT**

VALDES, GARCIA & MARIN

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

PARTNERS:

ERNESTO VALDÉS
ARTURO GARCÍA SÁNCHEZ
RAMÓN MARÍN
LUZ N. MARTÍNEZ

P.O. Box 364831
SAN JUAN, P.R. 00936-4831
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TELEFAX: (787) 721-2795

To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Aguas Buenas, Puerto Rico

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

We have audited the general purpose financial statements of the Municipality of Aguas Buenas, Puerto Rico as of and for the year ended June 30, 2001, and have issued our report thereon dated December 18, 2001 which was qualified for our inability to apply audit procedures over property and equipment. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our 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 to be

reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

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 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 none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of the management and members of the Municipal Legislature of the Municipality of Aguas Buenas, Puerto Rico, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
December 18, 2001



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to the original.

VALDES, GARCIA & MARIN

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

PARTNERS:

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To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Aguas Buenas, Puerto Rico

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

Compliance

We have audited the compliance of the Municipality of Aguas Buenas, Puerto Rico (The 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 its major federal program for the year ended June 30, 2001. The Municipality's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts and grants applicable to 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 generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, 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 other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

As described in the accompanying schedule of findings and questioned costs, the Municipality did not comply with requirements regarding cash management and the accounting and identification of property and equipment that are applicable to its CDBG and FEMA Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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.

Internal Control Over Compliance

The management of the Municipality of Aguas Buenas, Puerto Rico 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 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 to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

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 the 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 solely for the information of the management and members of the Municipal Assembly of the Municipality of Aguas Buenas, Puerto Rico, federal awarding agencies and pass-through entities. See page 33.

San Juan, Puerto Rico
December 18, 2001

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to the original.

Valeen, Gair + Mauri

**SCHEDULE OF CURRENT YEAR
FINDINGS AND QUESTIONED COSTS**

MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expressed a qualified opinion on the general purpose financial statements of the Municipality of Aguas Buenas, Puerto Rico for the inadequacy of accounting records over the general fixed assets and auditors' inability to apply the necessary audit procedures over this area.
2. Reportable conditions in internal control were disclosed by the audit of the financial statements and such conditions were not considered material weaknesses.
3. No instances of non-compliance material to the financial statements of the Municipality of Aguas Buenas, Puerto Rico were disclosed during the audit.
4. Reportable conditions in internal control over major programs were disclosed by the audit and such conditions were not considered material weaknesses.
5. The auditors' report on compliance for the major federal award program for the Municipality of Aguas Buenas, Puerto Rico expresses a qualified opinion.
6. Audit findings related to the major federal award programs for the Municipality of Aguas Buenas, Puerto Rico are reported in Part C of this Schedule.
7. The programs tested as major programs included: Community Development Block Grant, CFDA Number 14.228 and Section 8, CFDA 14.871.
8. The threshold for distinguishing Type A and Type B programs were \$300,000.
9. The Municipality did not qualify as a low-risk auditee.

MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

1. The Municipality's property and equipment records are not kept following proper accounting procedures. The inadequacies in the accounting records and the control procedures over this area precluded us from forming an opinion on the amount recorded in books.

Refer to finding number 2 Part C for cause, effect and recommendation.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Program

Questioned costs

- A. Community Development Block Grant - CFDA
No. 14.228, Grant Period - Year ended
June 30, 1999

U.S. Department of Housing and Urban
Development (HUD)

Finding No. 1

Statement of condition:

From our evaluation of the accounting records we noted that the Municipality have disbursed federal funds between 4 to 10 days in excess of the allowed period.

\$ -
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Criteria

Federal regulations specifically OMB Circular A-102 requires recipients of funds to disburse funds minimizing the time elapsed from its deposit and its disbursement. For municipalities, the Office of the Commissioner for Municipal Affairs (OCMA) has established a 5 day period to disburse funds.

MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Questioned Costs

Effect of condition

The above said condition have caused that the Municipality retained funds for a period that exceed the limits for a proper cash management.

Cause of condition

Lack of proper supervision over the cash accounts balances was the cause of this situation.

Recommendation:

To instruct the Finance Director to oversee cash account balances in a consistent manner so excess cash balances be detected timely and funds be retained for only the period of time actually authorized. Proper planning of the required disbursements should also be made to minimize the holding of the funds.

Questioned costs: None

Grantee response:

Finance Director was instructed to coordinate with Federal program Director, in order to prepare checks and make payments within the term required by law.

MUNICIPALITY OF AGUAS BUENAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Questioned Costs

Finding No. 2

Statement of condition:

The Municipality has not followed adequate procedures to account for the fixed assets acquired with federal funds or other source of funds. Also the fixed assets were not properly identified as federal property, if applicable.

\$ -

Criteria

Adequate policies and procedures as well as federal regulations require that property be adequately controlled and accounted for so it can be easily traceable to the accounting records and source of funds.

Effect of condition

Due to the above said conditions the Municipality did not have adequate property records and property balance can not be properly corroborated.

Cause of condition

Lack of proper accounting procedures for the control of property during several years was the cause of the above said condition.

Recommendation

We recommend to the Municipality to take action on this matter and to prepare a comprehensive property inventory identifying the property and the source of the funds used to purchase them and to reconcile this inventory with the underlying accounting records.

MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Questioned Costs

Questioned costs: None

Grantee response:

Instructions were given to the Finance Director and Property Officer in order to identify and reconcile the Municipality's fixed assets the properties records.

MUNICIPALITY OF AGUAS BUENAS

STATUS OF PRIOR YEAR AUDIT FINDINGS

In the Single Audit Report for 2000 we presented to the Municipality our comments and recommendations on certain aspects that were considered deviations from compliance requirements, rules and regulations of the federal funds programs.

During the current audit we followed-up on the matters communicated in the 2000 report and noted the following:

Program

A. Community Development Block Grant (CDBG)

Finding No. 1

From our evaluation of the accounting books we noted that the Municipality have disbursed federal funds between 2 to 39 days after receiving those funds in the bank accounts.

Status: This finding was repeated this year.

Finding No. 2

The Municipality has not followed adequate procedures to account for the fixed assets acquired with federal funds or other source of funds. Also the fixed assets were not properly identified as federal property, if applicable.

Status: This finding was repeated this year.

Program

B. Federal Emergency Management Agency (FEMA)

Finding No. 1

The Municipality did not comply with the Davis Bacon Act requirement.

Status: The finding was corrected.

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

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

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

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

1. Fiscal period ending date for this submission Month Day Year Fiscal Period End Dates Must Be On or After January 1, 2001 06 / 30 / 01		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - Months		FEDERAL GOVERNMENT USE ONLY	4. Date received by Federal clearinghouse
5. Employer Identification Number (EIN) a. Auditee EIN 66 0 4 3 3 5 7 1			b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF AGUAS BUENAS

b. Auditee address (Number and street)
BOX 128
City
AGUAS BUENAS, PR
State ZIP + 4 Code 0 0 7 0 3 - 0 1 2 8
P.R.

c. Auditee contact
Name
BUENAVENTURA DAVILA
Title
MAYOR

d. Auditee contact telephone
(787) 732 - 8621

e. Auditee contact FAX (Optional)
(787) 732 - 1075

f. Auditee contact E-mail (Optional)
NONE

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
VALDES, GARCIA & MARIN

b. Auditor address (Number and street)
PO BOX 364831
City
SAN JUAN
State ZIP + 4 Code 0 0 9 3 6 - 4 8 3 1
P.R.

c. Auditor contact
Name
RAMON MARIN
Title
PARTNER

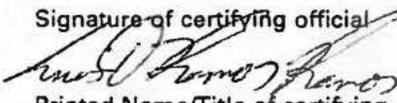
d. Auditor contact telephone
(787) 725 - 1600

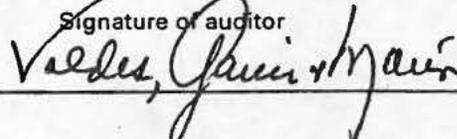
e. Auditor contact FAX (Optional)
(787) 721 - 2795

f. Auditor contact E-mail (Optional)

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

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

Signature of certifying official

Date Month Day Year 01 / 22 / 02
Printed Name/Title of certifying official
LUIS O. RAMOS RAMOS
FINANCE DIRECTOR

Signature of auditor

Date Month Day Year 01 / 22 / 02

OFIC DEL COMISIONADO
 UNIDAD DE CORRESPONDENCIA
 FEB 26 10:47

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
 1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1
9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.
- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No
3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5
4. Is any reportable condition reported as a material weakness? 1 Yes 2 No
5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ __ .520(b)) \$ 300,000
4. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No
5. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7
6. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No
7. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No
8. Was a Summary Schedule of Prior Audit Findings prepared? (§ __ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)
- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input checked="" type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.
 In addition, one copy each of the reporting package is required for:
 • the Federal Audit Clearinghouse archives
 • and, if not marked above, the cognizant agency (if identified in Part I, Item 9)
 Count total number of boxes marked above and submit this number of reporting packages

PART III FEDERAL PROGRAMS - Continued

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1	4 871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHER	\$ 770 408 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	0	N/A
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	GRANTS STATE'S PROGRAM COMMUNITY DEVELOPMENT BLOCK	\$ 607 340 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	C,F	A-1, A-2
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD	\$ 263 398 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	0	N/A
8	3 .516	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FEMA DISASTER ASSISTANCE	\$ 163 157 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	0	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →				\$1 804 303 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

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

- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income

- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

- O. None
- P. Other

⁴ N/A for NONE

EIN:

PART I **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1		16		31		46		61	
2		17		32		47		62	
3		18		33		48		63	
4		19		34		49		64	
5		20		35		50		65	
6		21		36		51		66	
7		22		37		52		67	
8		23		38		53		68	
9		24		39		54		69	
10		25		40		55		70	
11		26		41		56		71	
12		27		42		57		72	
13		28		43		58		73	
14		29		44		59		74	
15		30		45		60		75	

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

INSTRUCTIONS FOR COMPLETING FORM SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS FOR FISCAL PERIOD END DATES ON OR AFTER JANUARY 1, 2001

NOTE

Audits covering fiscal period end dates prior to January 1, 2001 should use the prior version of Form SF-SAC dated 8-97 which is available on the Federal Audit Clearinghouse website (<http://harvester.census.gov/sac/>).

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is OMB No. 0348-0057. The time required to complete this data collection form is estimated to average 30 hours for large auditees (i.e., auditees most likely to administer a large number of Federal awards) and six hours for all other auditees. These amounts reflect estimates of reporting burden on both auditees and auditors relating to the data collection form, including the time to review instructions, obtain the needed data, and complete and review the information collection.

Office of Management and Budget (OMB) Circular A-133 (Circular), "Audits of States, Local Governments, and Non-Profit Organizations," requires non-Federal entities that expend \$300,000 or more in a year in Federal awards to have an audit conducted in accordance with the Circular.

Circular (§ __ .320(b)) requires auditees to submit a completed Form SF-SAC (form), along with an appropriate number of reporting package copies in accordance with § __ .320(d) of the Circular, to the Federal clearinghouse designated by OMB (currently the U.S. Bureau of the Census). The reporting package is defined in § __ .320(c) of the Circular. Auditees are also required to send a copy of the reporting package (or written notification of no findings (§ __ .320(e))) to any pass-through entity from which they receive Federal funds. Submissions to a pass-through entity should not include the form.

Auditees should not submit a reporting package or data collection form if their single audit report is included in another auditee's report. **Example: If the audit of a state university's Federal awards is included in the state-wide single audit report and Form SF-SAC, the university should not submit a reporting package or data collection form to the Federal clearinghouse.**

SUBMISSION TO FEDERAL CLEARINGHOUSE

Auditees are encouraged to use the on-line Internet submission option available on the Federal Audit Clearinghouse (FAC) website. Auditees and auditors reduce the likelihood of errors on the Form SF-SAC by using the on-line Internet submission option. The website is located at:

<http://harvester.census.gov/sac/>.

Prior to completing Form SF-SAC on-line, review the step-by-step instructions available on the FAC website.

Only an approved form will be accepted. There are two approved Form SF-SAC formats: an original or a photocopy of the paper form or the on-line Internet submission option (with editing capabilities). Spreadsheet files for reporting the multiple Employer Identification Numbers (EINs) and Federal awards and audit finding data can be prepared and submitted through the on-line system. Both of the options are available on the FAC website.

The form must be signed and dated by both the auditee and auditor. A photocopy of the form is acceptable. Submission of the on-line Internet Form SF-SAC will require the user to print a hard copy of the final form after the form passes all the edits, obtain the auditee and auditor signatures, and forward the signed Form SF-SAC along with the reporting package(s) to the FAC. Submission of anything other than a complete form and reporting package(s) will not be accepted.

WHO TO CONTACT WITH QUESTIONS

For audit-related questions, please contact the Federal awarding agency involved or the auditee's Federal cognizant or oversight agency. Appendix III of the "OMB Circular A-133 Compliance Supplement" contains Federal agency contact information for A-133 audits. Appendix III of the Compliance Supplement is accessible via the Internet at www.whitehouse.gov/OMB/grants. For questions concerning the submission process or the form, contact the FAC (1.888.222.9907). Information can also be found on the FAC website (<http://harvester.census.gov/sac/>).

DESCRIPTION OF FORM

PART I - GENERAL INFORMATION

The auditee completes this section (except Items 4 and 7) and signs and dates the certification statement provided in Item 6(g).

Item 1 - Fiscal Period Ending Date For This Submission

Enter the last day of the fiscal period covered by the audit. The form applies to audits covering fiscal period end dates on or after January 1, 2001.

Note - Audits covering fiscal period end dates prior to January 1, 2001 should use the prior version of Form SF-SAC dated 8-97 available on the FAC website (<http://harvester.census.gov/sac/>).

Item 2 - Type of Circular A-133 Audit

Mark (X) the appropriate box. § __ .200 of the Circular requires non-Federal entities that expend \$300,000 or more in a year in Federal awards to have a single audit conducted in accordance with § __ .500, except when they elect to have a program-specific audit conducted in accordance with § __ .235.

Item 3 - Audit Period Covered

Mark (X) the appropriate box. Annual audits cover 12 months and biennial audits cover 24 months. If the audit period covered is neither annual nor biennial, mark "Other" and provide the number of months (excluding 12 and 24) covered in the space provided.

PART I – GENERAL INFORMATION – Continued

Item 4 – Date Received by Federal Clearinghouse

Skip this item (Federal government use only).

Item 5 – Employer Identification Number (EIN)

(a) Auditee EIN

Enter the auditee EIN, which is the nine-digit Taxpayer Identification Number assigned by the Internal Revenue Service (IRS). If the auditee was assigned multiple EINs, enter the principal EIN. Also, using the spaces provided, enter the principal EIN on the top of each page.

(b) Multiple EINs Covered by the Single Audit Report

Mark (X) the appropriate box to indicate whether the auditee (including components) was assigned more than one EIN by the IRS. (Example: A Statewide audit covers many departments, each of which may have its own EIN.)

(c) List of Multiple EINs Covered by the Single Audit Report

List all nine-digit EINs covered in this report on the Part I, Item 5(c) (page 4) continuation sheet. EINs should be considered covered in this report when this report is intended to satisfy the entity or component's (e.g., State department, sub-entity) single audit requirement. Do not include separate EINs for any component which did not receive, expend, or otherwise administer Federal awards. If additional lines are needed, photocopy page 4 and attach the additional page(s) to the form.

Note – Auditees may file this page via an electronic spreadsheet using the on-line submission option. Instructions for this option are included in the on-line filing instructions which are available on the FAC website.

Item 6 – Auditee Information

(a-f) Enter auditee contact information.

(g) A senior representative of the auditee (e.g., State controller, director of finance, chief executive officer, chief financial officer) signs the statement that the information on the form is accurate and complete as required by § __ .320 of the Circular. Provide the printed name and title of the signatory and date of signature.

Item 7 – Auditor Information

The auditor completes this item.

(a-f) Enter the name of the auditor that conducted the audit in accordance with the Circular. The auditor name may represent a sole practitioner, certified public accounting firm, State auditor, etc. Where multiple audit organizations are used to conduct the audit work, the lead or coordinating auditor shall provide its information in Item 7(a-f) and attach a sheet to the form with the same information about other auditor organizations.

(g) The auditor listed in Part I, Item 7(a) is the same auditor that signs the auditor statement. Additional auditors may sign the form, but only the first name listed will be entered into the database.

Item 8 – Did the Auditee Expend More Than \$25 Million in Federal Awards

Mark (X) the appropriate box. If the answer is "Yes," identify the cognizant agency for audit in Part I, Item 9. An auditee will only have a cognizant agency for audit in years when Federal awards expended are greater than \$25 million regardless of whether a cognizant agency was designated in prior years. If the answer is "No," skip to Part II, Item 1.

Item 9 – Name of Federal Agency Which Provided the Predominant Amount of Direct Funding in Fiscal Year 2000

This question should only be answered if Part I, Item 8 is answered "Yes". The designated cognizant agency for audit is the Federal agency that provided the predominant amount of direct funding, based on direct Federal awards expended by the auditee in FY 2000. The Cognizant agency will be redetermined in FY 2005 and every fifth year thereafter. § __ .400(a) of the Circular allows a Federal awarding agency with cognizance for an auditee to reassign cognizance to another Federal awarding agency which provides substantial direct funding and agrees to be the cognizant agency for audit. If cognizance has been reassigned under § __ .400(a), enter the name of the Federal agency reassigned cognizance in lieu of the Federal agency providing the predominant amount of direct funding in 2000.

PART II – FINANCIAL STATEMENTS

The auditor completes this section of the form. All information for this section should be obtained from the opinion on the financial statements and reports in accordance with the Government Auditing Standards (GAS) related to the financial statement audit.

PART III – FEDERAL PROGRAMS

The auditor completes this section of the form.

Item 1 – Type of Audit Report on Major Program Compliance

If the audit report on all major program compliance is unqualified, check box 1. If the audit report for one or more major programs is other than unqualified, check boxes 2, 3, or 4, as applicable.

For example, if the audit report on major program compliance for an auditee with three major programs includes an unqualified opinion for one program, a qualified opinion for the second program, and a disclaimer of opinion for the third program, then mark (X) boxes 2 and 4, but not 1 and 3.

Item 2 – When the Audit of Federal Awards Does Not Encompass the Entirety of the Auditee's Operation

If the audit of Federal awards did not encompass the entirety of the auditee's operations expending Federal awards, the operations that are not included should be identified in a separate paragraph in the auditor's report on major programs. Indicate whether or not that report includes such a statement. Refer to the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-3 Chapter 10 for additional guidance.

Item 3 – Dollar Threshold to Distinguish Type A and Type B Programs

Enter the dollar threshold used to distinguish between Type A and Type B programs as defined in § __ .520(b) of the Circular. The dollar threshold must be \$300,000 or higher. Round to the nearest dollar.

Item 4 – Low-Risk Auditee

Indicate whether or not the auditee qualified as a low-risk auditee under § __ .530 of the Circular.

Items 5 and 6 – Reportable Conditions and Material Weaknesses

Indicate whether or not the Schedule of Findings and Questioned Costs includes any reportable conditions in internal control for major programs and whether or not any reportable conditions are material weaknesses.

Item 7 – Questioned Costs

Indicate whether or not the Schedule of Findings and Questioned Costs disclosed any known questioned costs.

Item 8 – Summary Schedule of Prior Audit Findings

Indicate whether or not a Summary Schedule of Prior Audit Findings was prepared.

Item 9 – Federal Agencies Required to Receive the Reporting Package

Mark (X) the appropriate box to indicate each Federal awarding agency required to receive a copy of the reporting package pursuant to § .320(d) of the Circular. A Federal agency should be marked only if the Schedule of Findings and Questioned Costs discloses audit findings relating to Federal awards that Federal awarding agency provided directly OR the Summary Schedule of Prior Audit Findings reports the status of any audit findings relating to Federal awards that Federal awarding agency provided directly. Note that the auditee must submit to the Clearinghouse one reporting package (as defined in § .320(c)) for each Federal agency marked in this question, one archival reporting package, and one reporting package, if not marked above, for the Federal cognizant agency for audit (if identified in Part I, Item 9). Check the appropriate box to indicate if an additional copy of the reporting package is required for the cognizant agency. Then count the number of boxes checked and enter the number on the total line.

Item 10 – Federal Awards Expended During Fiscal Period

It is preferred that the program lines in Part III, Item 10 be listed in the same order as shown in the Schedule of Expenditures of Federal Awards.

Clusters, with the exception of R&D, should be broken out and each individual program must be listed on a separate line. The R&D cluster should be reported at the same level of detail as the Schedule of Expenditures of Federal Awards.

The information to complete columns (a), (b), (c), (d), and (e) is obtained from the Schedule of Expenditures of Federal Awards. The information to complete column (f) is obtained from the Schedule of Findings and Questioned Costs. Note that Item 10 includes the required information for each Federal program presented in the Schedule of Expenditures of Federal Awards (and notes thereto), regardless of whether audit findings are reported. If additional lines are needed, photocopy page 3 and attach the additional page(s) to the form, and enter the total for all pages in the "Total Federal Awards Expended" block on the last page.

Note – Auditees may file this page via an electronic spreadsheet using the on-line submission option. Instructions for this option are included in the on-line filing instructions which are available on the Federal Audit Clearinghouse website.

Column (a) – Federal Agency Prefix and CFDA Number

• Programs with a CFDA Number

In the first two spaces, enter the first two digits of the Catalog of Federal Domestic Assistance (CFDA) number (Federal agency two-digit prefix) assigned to the Federal award. In the remaining space provided, enter the last three digits of the

CFDA number. If this information is unavailable, consult the Federal awarding agency or pass-through entity to obtain this number. The CFDA is available on the Internet at: <http://www.cfda.gov>.

Example: The Education program 84.033 would be entered as:

8	4	033
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• Programs with No CFDA Number

In the first two spaces, enter the Federal agency's two-digit prefix (as listed in Appendix 1).

Example: A USAID program with no CFDA number would be entered as:

0	2	
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• Programs with No CFDA Number but Award Has a Contract or Grant Number

As an option, you may follow the two-digit prefix with the contract or grant number.

Example: An HHS program with no CFDA number but with a contract number of 9999999 would be entered as:

9	3	9999999
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Column (b) – Research and Development

Indicate whether or not the Federal program is a Research and Development (R&D) program as defined in § .105 of the Circular. When a CFDA program consists of part R&D and part non-R&D, list the R&D expenditure detail on one line and the non-R&D expenditure detail on a second line.

Example: An NSF program with part R&D and part non-R&D for CFDA 47.076 would be entered as:

Federal Agency Prefix and CFDA Number			R & D	NAME	AMOUNT
4	7	076	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Education & Human Resources	23456
4	7	076	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Education & Human Resources	89101

Column (c) – Name of Federal Program

Enter the name of the Federal program as shown in the CFDA.

Column (d) – Amount Expended

Enter the amount of expenditures included in the Schedule of Expenditures of Federal Awards (Schedule) for each Federal program. Note that amounts shall include the value of Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end, regardless of whether such amounts were presented in the Schedule or in a note to the Schedule. Round to the nearest dollar.

Column (e) – Direct Award

Indicate whether or not the award was received directly from a Federal awarding agency. When an award consists of both direct and indirect (i.e., received by a subrecipient from a pass-through entity) funds, list the direct expenditure detail on one line and the indirect expenditure detail on a second line. When a single audit reporting entity receives direct awards and transfers them to another part of the same single audit reporting entity, these awards should still be reported as direct (e.g., transfers within the single audit reporting entity do not create a recipient/subrecipient relationship).

Example: A DOL program with part direct and part indirect for CFDA 17.250 would be entered as:

Federal Agency Prefix and CFDA Number			R & D	NAME	AMOUNT	DIRECT
1	7	250	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	JTPA	133337	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
1	7	250	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	JTPA	995582	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Column (f) – Major Program

Indicate whether or not the Federal program is a major program, as defined in § __.520 of the Circular.

Item 11 – Audit Findings

The rows of Item 11 directly correspond to matching rows in Item 10. The information to complete columns (a) and (b) is obtained from the Schedule of Findings and Questioned Costs prepared by the auditor. If the Schedule of Findings and Questioned Costs does not identify audit findings for a specific row, the auditor should enter "O" and N/A, respectively, for items (a) and (b). Audit findings affecting more than one major program should be listed for all major programs affected.

Column (a) – Type(s) of Compliance Requirement(s)

Using the list provided on the form in footnote 3 on page 3, enter the letter(s) that correspond to the type(s) of compliance requirement(s) applicable to the audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud and other items reported under § __.510(a)) for each Federal program. Do not list all types of compliance requirements that were tested. Normally, audit findings will be covered by the 14 types of compliance requirements described in Part 3 of the "OMB Circular A-133 Compliance Supplement." If the audit finding is not covered by one of these, enter "P" for "Other." If there were no audit findings, enter "O" for "None."

Column (b) – Audit Finding Reference Number(s)

Enter the audit finding reference number(s) for audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under for § __.510(a)) in the Schedule of Findings and Questioned Costs. If no audit findings were reported, enter N/A for "Not applicable."

APPENDIX 1

FEDERAL AGENCY TWO-DIGIT PREFIX LIST

01	African Development Foundation	09	Legal Services Corporation
02	Agency for International Development	42	Library of Congress
10	Department of Agriculture	91	Miscellaneous Foundations & Commissions
23	Appalachian Regional Commission	99	Miscellaneous
88	Architectural & Transportation Barriers Compliance Board	43	National Aeronautics & Space Administration
13	Central Intelligence Agency	89	National Archives & Records Administration
11	Department of Commerce	92	National Council on Disability
29	Commission on Civil Rights	44	National Credit Union Administration
78	Commodity Futures Trading Commission	05	National Endowment for the Arts
87	Consumer Product Safety Commission	06	National Endowment for the Humanities
94	Corporation for National Service	68	National Gallery of Art
12	Department of Defense	46	National Labor Relations Board
84	Department of Education	47	National Science Foundation
81	Department of Energy	77	Nuclear Regulatory Commission
66	Environmental Protection Agency	07	Office of National Drug Control Policy
30	Equal Employment Opportunity Commission	27	Office of Personnel Management
32	Federal Communications Commission	70	Overseas Private Investment Corporation
83	Federal Emergency Management Agency	08	Peace Corps
33	Federal Maritime Commission	86	Pension Benefit Guaranty Corporation
34	Federal Mediation and Conciliation Service	22	Postal Service
18	Federal Reserve System	53	President's Committee on Employment of the Handicapped
36	Federal Trade Commission	57	Railroad Retirement Board
39	General Services Administration	85	Scholarship Foundations
40	Government Printing Office	58	Securities and Exchange Commission
93	Department of Health and Human Services	59	Small Business Administration
14	Department of Housing and Urban Development	60	Smithsonian Institution
03	Institute for Museum Services	96	Social Security Administration
04	Inter-American Foundation	19	Department of State
15	Department of Interior	62	Tennessee Valley Authority
61	International Trade Commission	20	Department of Transportation
41	Interstate Commerce Commission	21	Department of Treasury
16	Department of Justice	82	United States Information Agency
17	Department of Labor	64	Department of Veterans Affairs