

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

MUNICIPIO DE AIBONITO
AUDITORIA 2001-2002
30 DE JUNIO DE 2002

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SINGLE AUDIT REPORT
JUNE 30, 2002

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CPA CARLOS E. SOTO BUSIGO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SINGLE AUDIT REPORT**

JUNE 30, 2002

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SINGLE AUDIT REPORT
JUNE 30, 2002**

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Honorable José Alberto Díaz
Mayor
Municipality of Aibonito
Aibonito, Puerto Rico

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

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provision of office of Management and Budget Circular A-133 "Audits of States and Local Governments and Non-Profit Organization". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The operations of Las Flores Apartments Projects, as well as its properties and obligations are not included as part of this report.

In our opinion, the financial statement referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Aibonito, as of June 30, 2002, the result of operations and changes in fund balances for the fiscal year then ended in conformity with generally accepted accounting principles.

During fiscal year June 30, 1999 the Municipality was subject to an audit from the Commonwealth of Puerto Rico Comptroller, covering the period from July 1997 to December 1999; (M-02-01 of July 12, 2001) as of the date if this report the municipality is in the process of implementing a corrective action plan and obtaining data to clear certain reported findings.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

(Continued)

The Municipality is participant and co-participant to contest litigation, claims and assessment in approximately \$571,000. As of the date of this report there is no sufficient information to determine if such litigation will affect the Municipality financial position.

November 20, 2002



CPA Carlos E. Soto Busigó
Lic. 1220, Puerto Rico



**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES
AND ACCOUNT GROUPS
JUNE 30, 2002**

	GOVERNMENTAL FUNDS TYPES				ACCOUNTS GROUPS		TOTAL Memorandum Only
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICES	GENERAL LONG TERM DEBT	GENERAL FIXED ASSETS	
	ASSETS AND OTHER DEBITS						
Cash and Investment	\$ 2,319,962	\$ 937,897	\$ 1,395,264				\$ 4,653,123
Cash held with fiscal agent				\$ 1,224,517			1,224,517
Accounts receivable:							
Property Tax	-						-
Volume of Business Tax	30,146						30,146
Intergovernmental	251,877						251,877
Other Funds	345,976	331,807					677,783
Other	102,183						102,183
Property, Plant and Equipment						\$ 10,616,994	10,616,994
Amount available in debt service funds					\$ 1,224,517		1,224,517
Amount to be provided for Retirement of general long-term debt					2,825,483		2,825,483
Amount to be provided for Payment of Vested Compensation Absences	-	-	-	-	655,774	-	655,774
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 3,050,144</u>	<u>\$ 1,269,704</u>	<u>\$ 1,395,264</u>	<u>\$ 1,224,517</u>	<u>\$ 4,705,774</u>	<u>\$ 10,616,994</u>	<u>\$ 22,262,397</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES
AND ACCOUNT GROUPS
JUNE 30, 2002**

(Continued)

	GOVERNMENTAL		FUNDS	TYPES	ACCOUNTS GROUPS		TOTAL Memorandum Only
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>GENERAL LONG TERM DEBT</u>	<u>GENERAL FIXED ASSETS</u>	
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts payable and Encumbrances	\$ 353,296	\$ 549,285	\$ 196,694				\$ 1,099,275
Due to:							
Other Funds	331,807	23,535	322,441				677,783
Other Governmental Units	356,730						356,730
Deferred Revenues:							
Volume of Business Tax Deferred Revenue	923,011						923,011 -
Long-term debts:							
General Obligation Bond					\$ 4,050,000		4,050,000
Vested Compensation Absences	-	-	-	-	655,774	-	655,774
TOTAL LIABILITIES	<u>1,964,844</u>	<u>572,820</u>	<u>519,135</u>	<u>-</u>	<u>4,705,774</u>	<u>-</u>	<u>7,762,573</u>
FUND EQUITY:							
Investment in Property, Plant and Equipment						10,616,994	10,616,994
Fund Balance:							
Reserve for encumbrance	-						-
Reserved for Debt Services				1,224,517			1,224,517
Designed for Subsequent Years Expenditures		696,884	876,129				1,573,013
Undesigned	1,085,300	-	-	-	-	-	1,085,300
TOTAL FUND EQUITY	<u>1,085,300</u>	<u>696,884</u>	<u>876,129</u>	<u>1,224,517</u>	<u>-</u>	<u>10,616,994</u>	<u>14,499,824</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,050,144</u>	<u>\$ 1,269,704</u>	<u>\$ 1,395,264</u>	<u>\$ 1,224,517</u>	<u>\$ 4,705,774</u>	<u>\$ 10,616,994</u>	<u>\$ 22,262,397</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

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

	GOVERNMENTAL FUNDS TYPES				Memorandum Only
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICES	
REVENUES:					
Property taxes	\$ 1,873,448			\$ 637,173	\$ 2,510,621
Volume of Business Taxes	1,135,198				1,135,198
Federal Assistance	-	\$ 394,016	\$ 213,564		607,580
Intergovernmental	3,422,742	1,163,376	22,460		4,608,578
Licenses, permits and fines	228,015				228,015
Rent	64,221				64,221
Interest	29,646	-	-		29,646
Miscellaneous	59,409	-	-	18,590	77,999
TOTAL REVENUES	6,812,679	1,557,392	236,024	655,763	9,261,858
EXPENDITURES:					
Mayor Office	798,162				798,162
Municipality Assembly	101,077				101,077
Finance	1,968,844				1,968,844
Administration Federal Award	97,026				
Personnel	159,245				159,245
Municipal Secretary	30,134				30,134
Internal Auditor	30,206				30,206
Public Safety	187,894				187,894
Sport and recreation	479,960				479,960
Sanitation	978,020				978,020
Public Work	884,102	816,926			1,701,028
Capital expenditures			128,386		128,386
Federal Funds		348,038	193,430		541,468
Principal Retirement				326,000	326,000
Interest Payment	-	-	-	204,981	204,981
TOTAL EXPENDITURES	5,714,670	1,164,964	321,816	530,981	7,635,405
EXCESS REVENUES OVER EXPENDITURES	1,098,009	392,428	(85,792)	124,782	1,626,453

The accompanying notes are integral part of the financial statements.
See auditor's report.

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

(Continued)

	GOVERNMENTAL FUNDS TYPES				
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	Total Memorandum Only
OTHER FINANCING SOURCES (USES):					
Loan Proceed			720,000		720,000
Operating Transfer Out - Interest				(23,265)	(23,265)
Transfer to Capital Project	(241,924)	-	241,924	-	-
TOTAL OTHER FINANCING SOURCES	<u>(241,924)</u>	<u>-</u>	<u>961,924</u>	<u>(23,265)</u>	<u>696,735</u>
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	856,085	392,428	876,132	101,517	2,226,162
Prior Periods Adjustments:					
Cancellation of Rent Receivable from Head Start Centers	(116,850)				(116,850)
 FUND BALANCE, BEGINNING OF YEAR	<u>346,065</u>	<u>304,456</u>	<u>-</u>	<u>1,123,000</u>	<u>1,773,521</u>
 FUND BALANCE, END OF YEAR	<u>\$ 1,085,300</u>	<u>\$ 696,884</u>	<u>\$ 876,132</u>	<u>\$ 1,224,517</u>	<u>\$ 3,882,833</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT)
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002**

G E N E R A L F U N D			
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Property Taxes	\$ 1,873,448	\$ 1,873,448	\$ -
Volume of Business Taxes	1,044,108	1,135,198	91,090
Federal Assistance			-
Intergovernmental	3,424,129	3,422,742	(1,387)
Licenses, permits and fines	218,925	228,015	9,090
Rent	61,138	64,221	3,083
Interest	14,821	29,646	14,825
Miscellaneous	59,110	59,409	299
TOTAL REVENUES	6,695,679	6,812,679	117,000
EXPENDITURES:			
Mayor Office	807,456	798,162	9,294
Municipality Assembly	107,337	101,077	6,260
Finance	1,982,838	1,968,844	13,994
Administration Federal Award	108,169	97,026	11,143
Personnel	164,485	159,245	5,240
Municipal Secretary	43,016	30,134	12,882
Internal Auditor	57,519	30,206	27,313
Public Safety	188,479	187,894	585
Sport and recreation	480,610	479,960	650
Sanitation	1,102,370	978,020	124,350
Public Works	1,653,400	884,102	769,298
TOTAL EXPENDITURES	6,695,679	5,714,670	981,009
EXCESS REVENUES OVER EXPENDITURES	\$ -	1,098,009	\$ 1,098,009
Transfer to Capital Project Fund		(241,924)	
Net increase in fund balance		856,085	
Prior period adjustments		(116,850)	
Fund Balance at beginning of Year		346,065	
Fund Balance at End of Year		\$ 1,085,300	

The accompanying notes are integral part of the financial statements.
See auditor's report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Municipality of Aibonito (Municipality) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary to the more significant of such policies.

A. Financial Reporting Entity

The Municipality was founded in the year 1824, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consist of 14 assemblymen also elected in the general; election of Puerto Rico for a four year period.

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

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

The general purpose financial statements presents the financial position of the various funds types and accounts groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and members of the Municipal Assembly of the Municipality. In evaluating the Municipality as a reporting entity, management has addresses all the potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criterion for including a component unit within the Municipality's reporting entity is the oversight responsibility by Aibonito's Municipality Assembly.

Under current GAAP, the specifics used by the Municipality for establishing oversight responsibility are:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

Manifestation of Oversight Responsibility:

Selection of Units Governing Board
Management designation of the unit
Significant influence over operations

Accountability for Fiscal Matters:

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

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

Scope of public service of the unit
Any other relationship , which, in substance, implies control or dependency.

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

B. Basis of Presentation

The financial transactions of the Municipality are recorded in individual funds and accounts groups. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds and accounts groups are reported by generic classification within the financial statements.

Amounts in the "Total Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and accounts groups, and are presented for the analytical purpose only. The summation include fund types and account groups that use different basis of accounting, includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality.

CPA CARLOS E. SOTO BUSIGO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the Municipality are financed. The acquisition, use, and balances of liabilities are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the Municipality's governmental fund types:

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

Special Revenue Fund - The special revenue fund is used to account for the proceeds of specific revenue sources (other than major capital project) that are legally restricted to expenditures for specific purposes.

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

Capital Project Fund - The capital project funds is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the general fixed assets account groups.

ACCOUNT GROUPS

Account groups are not funds; they do not reflect available financial resources and related liabilities, but are accounting records of the general fixed assets and general long-term obligations, respectively. The following is a description of the Account Groups of the Municipality:

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

CPA CARLOS E. SOTO BUSIGO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

General Long-Term Debt Account Group - This group of accounts is established to account for all long-term debt of the Municipality.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., and both measurement and available. "Available" means collectible within current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid sick leave and other employee amounts which are not accrued (Note 1H); and (2) principal and interest on long-term debt, which is recognized when due. In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contract requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, money must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. For the second type, money is received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded. For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

D. Encumbrances

Encumbrance accounting is employed in the governmental fund types. Under the encumbrance system all purchase orders, contracts and other commitments issued for goods and services not received at year end are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year end are reported as reservations of fund balances and they do not constitute expenditures or liabilities since the commitments will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

E. Budgetary Data

The Municipality's Annual Budget represents departmental appropriations recommended by the Mayor and the means of financing them. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general purpose financial statements:

1. Prior to May 31 of each fiscal year, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1, in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Assembly.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comment or recommendation before the limited date establishes by the Law.
4. Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general purpose financial statements.

The accompanying combined financial statement of revenues, expenditures and encumbrances and changes in fund balance - budget and actual, are presented on the budgetary basis to enhance comparability, since the budgetary basis followed by Municipality differs from generally accepted accounting principles (GAAP).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

The principal differences between the budgetary basis and GAAP are the follows:

1. Encumbrances are recorded as expenditures under the budgetary basis and a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the general and special revenue funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, both measurable and available, are not included in the budgetary basis.

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

The special funds of the special revenue fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Assistance Programs included in the capital projects and special revenue funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

F. Cash, including Certificate of Deposit

The Director of Finance of the Municipality of Aibonito is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposits and other short-term investments are recognized as a revenue in the general fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

G. Inventories

The general, special revenue and capital project funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as an expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

H. Vested Compensation Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of services who are entitled to sick leave pay up to maximum allowed. The Municipality accrues a liability for compensation absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's right to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Municipality has accrued a liability for compensation absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources is included in the general long-term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources is included as an accrued liability in the general fund.

I. Insurance

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

CPA CARLOS E. SOTO BUSIGO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

NOTE 2- CASH, INCLUDING CERTIFICATE OF DEPOSIT

The Municipality follows the practice of pooling cash of all funds, except from restricted funds held by the Treasury Department for repayment of principal and interests on general long-term obligations, and federal financial assistance.

Deposits in interest bearing accounts were secured at balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000. Deposits in excess of \$100,000 are collateralized by bank securities to properly safeguard such funds. Certificates of Deposits consist of the following:

<u>Issued by</u>	<u>Certificate Number</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Expiration Date</u>
Banco Popular de PR	111-00020	<u>\$ 200,000</u>	2.00%	08-28-02

NOTE 3- DUE FROM GOVERNMENTAL UNIT

As of June 30, 2002, balance due from other governmental unit of the general fund representing a property tax liquidation from:

“Centro Recaudacion de Ingresos Municipales (CRIM)” \$ 251,877

NOTE 4- INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

Interfund receivable and payable balances at June 30, 2002, are as follows:

I N T E R F U N D

<u>Funds:</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 345,976	\$ 331,807
Special Revenue	331,807	23,535
Capital Project	<u>0</u>	<u>322,441</u>
Total	<u>\$ 677,783</u>	<u>\$ 677,783</u>

NOTE 5- PROPERTY, PLANT AND EQUIPMENT

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

	Balance July 01, <u>2001</u>	Adjustments and <u>Reclassification</u>	Balance June 30, <u>2002</u>
Land	\$3,571,334	\$ (49,800)	\$ 3,521,534
Buildings	3,951,287	56,605	4,007,892
Vehicles	1,790,800	202,881	1,993,681
Machinery and Equipment	<u>619,424</u>	<u>18,170</u>	<u>637,594</u>
Subtotal	9,932,845	227,856	10,160,701
Construction in progress	<u>335,796</u>	<u>120,497</u>	<u>456,293</u>
	<u>\$10,268,641</u>	<u>\$ 348,353</u>	<u>\$ 10,616,994</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

NOTE 6- DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2002, balance due to other governmental units of the general fund for services rendered to the Municipality and payroll taxes, consists of the following:

	<u>General Fund</u>
Sewer and Sanitary Authority	\$ 5,478
Highway Authority	13,143
Internal Revenue Services	1,131
Retirement System	9,596
Treasury Department	6,081
PR Telephone Co.	71,407
PR Electric Power Authority	220,621
PR Department of Labor	9,204
Workmen Compensation	<u>20,069</u>
Total	<u>\$ 356,730</u>

NOTE 7- GENERAL OBLIGATIONS - BONDS

The principal long-term obligations of the Municipality are general obligation bonds issued to finance the construction and improvement of public facilities. The Municipality's general obligation long-term debt retirement are appropriated and paid from resources accumulated in the debt service fund (See Note 8). General obligation bonds as of June 30, 2002, are comprised of the following individual issues:

<u>Description</u>	<u>Amount</u>
\$420,000, series 1993, payable in annual installments ranging from \$15,000 to \$50,000, excluding interest, through July 1, 2007 interest at 5.00 to 7.50%	\$ 240,000
\$1,120,000, series 1991, payable in annual installments ranging from \$45,000 to \$135,000, excluding interest, through July 1, 2005, interest at 3.26 to 6.31%	470,000
\$572,000, series 1991, payable in annual installments ranging from \$14,000 to \$41,000, excluding interest, through January 1, 2016 interest at 5.00%	420,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

\$870,000 series 2000 payable in annual installments ranging from \$40,000 to \$100,000 excluding interest through July 2011 interest from 6.0% to 7.5%	735,000
\$1,040,000 series 1996 payable in annual installments ranging from \$15,000 to \$90,000 excluding interest through July 2020 interest from 4.7% to 6.5%	950,000
\$122,000 series 1996 payable in annual installments ranging from \$15,000 to \$20,000 excluding interest through January 2003 interest at 4.5%	20,000
\$393,000 series 1996 payable in annual installments ranging from \$48,000 to \$65,000 excluding interest through January 2003 interest at 5%	65,000
\$350,000 series 1999 payable in annual installments ranging from \$30,000 to \$50,000 excluding interest through July 2008 interest from 7.0% to 7.5%	290,000
\$575,000 series 2001 payable in annual installments ranging from \$10,000 to \$50,000 excluding interest through July 2026 interest at 6.5%	575,000
\$145,000 note, payable in annual installments ranging from \$15,000 to \$25,000 excluding interest through July 2008 interest at 8.0%	145,000
\$160,000 series 1999 payable in annual installments ranging from \$10,000 to \$25,000 excluding interest through July 2009 interest from 7.0% to 8.0%	<u>140,000</u>
Total General Obligations	<u>\$4,050,000</u>

The annual requirements to amortize principal of the general long-term debt outstanding as of June 30, 2002 are as follows:

Year Ending <u>June 30,</u>	Principal Payment Requirements
2003	\$ 386,000
2004	327,000
2005	359,000
2006	380,000
2007	261,000
After 2007	2,337,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

The following is a summary of changes in long-term bond obligation for the year ended June 30, 2002:

	Balance July 1, <u>2001</u>	<u>Additions</u>	Retirement and Current <u>Maturates</u>	Balance June 30, <u>2002</u>
General	<u>\$3,666,000</u>	<u>\$ 720,000</u>	<u>\$ 336,000</u>	<u>\$4,050,000</u>

NOTE 8 DEBT RETIREMENT

Revenues of the debt service fund consist of the property taxes which are recognized as revenue when collected from taxpayers and reported by the Treasury Department of the Commonwealth of Puerto Rico to the Municipality. These property taxes are accumulated by the Treasury Department in costs of the general obligation bonds issued by the Municipality. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Treasury Department of Puerto Rico.

NOTE 9- PROPERTY TAXES

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

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

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represent the Municipality's basic tax rate, which is appropriated for general purpose and therefore accounted for through the general fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

The remaining portion belonging to the Municipality of 1.25% represents the property taxes withheld by the Collection Center of Municipal Revenues (CRIM) of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 7). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the tax rate.

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

For retailers with an annual net sales volume of less than \$150,000 a complete exemption from personnel property taxes up to an assessment value of \$50,000 is granted by the Municipality.

The Collection Center of Municipal Revenues (CRIM) advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Collection Center of Municipal Revenues (CRIM) periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund exonerated portion of property tax contribution when received from monthly advances from Collection Center of Municipal Revenues (CRIM). The non-exonerated portion of the advance is recorded as other financing sources in the general fund and in the general long-term debt accounts group as an increase in related debt.

The revenue for the basic contribution over property not exonerated is recorded in the general fund where the respective property tax notifications from the Collection Center of Municipal Revenues (CRIM) are received, which includes the amounts collected by such Department. Due to the fact that collections are applied to the advances pending to be paid, the Municipality records an expenditure in the general fund and a corresponding reduction in the balance reported in the general long-term debt account group.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

NOTE 10- VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality except for those industrial organization exempt form this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follows:

- a. 1.25% for financial institutions
- b. 1.00% for saving and loan associations
- c. 0.50% for all other organizations

Taxes are payable in two equal semi-annual installment on July 1 and January 1 following the date of levy. If they are paid before their maturity, the taxpayers is granted certain discounts. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the general fund.

NOTE 11- INTERGOVERNMENTAL REVENUES

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

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the general fund except for those directly related to urban development and capital improvements, which are accounted for through the special revenue and the capital project funds. Federal Financial Assistance is recorded through the special revenue and the capital project funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

NOTE 12- EMPLOYEE'S RETIREMENT PLAN

All the career employees of the Municipality are covered under the Commonwealth of Puerto Rico Employee's Retirement System. The Municipality contributed in the system 9.275% of the participating employee's salaries. The total pension expenses for the year ended at June 30, 2002, was approximately \$102,190. At the present time is not practical to determine the amount of the actuarial present value of vested and no vested accumulated plan benefits and pension fund net assets or other data related to the Municipality's employees participation in the Retirement System Plan.

NOTE 13- CONTINGENCIES

The Municipality of Aibonito is participant and co-participant to contest litigation, claims and assessments in approximately \$571,000.

NOTE 14- PRIOR PERIODS ADJUSTMENTS

The Municipality of Aibonito reduced the amount of rent receivable from the Head Start Centers from \$131,250 to \$14,400; accordingly the amount of \$116,850 of the write-off is reported as prior period adjustments.

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**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable José Alberto Díaz
Mayor
Municipality of Aibonito
Aibonito, Puerto Rico

We have audited the general purpose financial statements of Municipality of Aibonito as of the year ended June 30, 2002, and have issued our report thereon dated November 20, 2002. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of office of Management and Budget (OMB) Circular A-133, "Audits of State and Local Governments and Non-Profit Organization". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements of the Municipality of Aibonito, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



CPA Carlos E. Soto Busigó

November 20, 2002

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

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PROGRAM NUMBER</u>	<u>EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Section 8 Vouchers	14.855	RQ46V059	\$ 164,419
Indirect Program:			
State Block Grant Program (SBGP)	14.228	N/A	<u>193,430</u>
Total US Department of Housing and Urban Development			<u>357,849</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Disaster Assistance Program - Georges	83.516	1247	<u>16,600</u>
DEPARTMENT OF JUSTICE			
Passed through Commonwealth of PR Department of Justice			
Local Law Enforcement Block Grant:	16.710		
Equipment for Municipal Police		2000LBMA-02	84,156
Cops		2000LBMA-01	<u>82,863</u>
			<u>167,019</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u>541,468</u>

The accompanying notes are integral part of the financial statements.
See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

NOTE 1- GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Aibonito, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

NOTE 2- BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified basis of accounting, which described Note 1 to prepare the Municipality's general-purpose financial statements.

NOTE 3- RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as special fund and capital project fund.

NOTE 4- FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

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

Municipality of Aibonito
Commonwealth of Puerto Rico
Aibonito, Puerto Rico

We have audited the financial statements of Municipality of Aibonito as of and for the year ended June 30, 2002, and have issued our report thereon dated November 20, 2002. 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 Municipality of Aibonito 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs Section III.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Aibonito 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 Municipality of Aibonito 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 Section II.

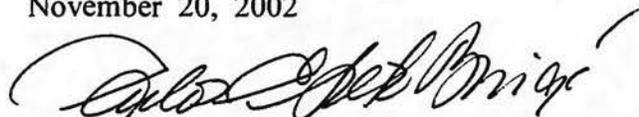
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

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 necessary disclose all reportable condition that might be material weaknesses. However, we believe that none of the reportable condition described above is to considered to be material weaknesses.

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

November 20, 2002



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

Municipality of Aibonito
Commonwealth of Puerto Rico
Aibonito, Puerto Rico

Compliance

We have audited the compliance of Municipality of Aibonito with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Municipality of Aibonito major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Aibonito management. Our responsibility is to express an opinion on Municipality of Aibonito 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, Audit of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Aibonito compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Aibonito compliance with those requirements.

As described in Section III in the accompanying schedule of findings and questioned costs, Municipality of Aibonito did not comply with the Administrative Requirements of Federal Funds that are applicable to its HUD SBGP. Compliance with such requirement is necessary, in our opinion, for Municipality of Aibonito to comply with the requirements applicable to that programs.

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

(Continued)

In our opinion, except of the noncompliance described above, Municipality of Aibonito complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control over Compliance

The management of Municipality of Aibonito is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Aibonito 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 of Aibonito ability to administer a major program in accordance with the applicable requirements of laws, regulations, contract, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs Section II and III.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

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

November 20, 2002



CPA Carlos E. Soto Busigó
Lic. 1220, Puerto Rico

CPA CARLOS E. SOTO BUSIGO

MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section I - Summary of Auditor's Report

Financial Statements

Type of auditor's report issued: qualified with disclaimer for capital project fund

Internal Control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are
not considered to be material weakness? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are
not considered to be material weakness? X yes none reported

Type of auditor's report issued on compliance for major programs: qualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	State Block Grant Program (SBGP)

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2002

SECTION II - FINANCIAL STATEMENTS FINDINGS

INTERNAL CONTROLS FINDINGS:

Our examination of internal control with Federal Requirements of the Municipality of Aibonito, for the year ended June 30, 2002 disclosed that grant funds were generally administered in a satisfactory manner.

1. We noted the persistence of prior years audit findings. We recommend prompt corrective action to attend prior years audit findings.

Institution comments:

The Internal Auditor and the Finance Director are working on the Corrective Action Plan. It should be noted that corrective actions were taken on various situations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

COMPLIANCE FINDINGS:

Our examination of compliance with Federal Requirements of the Municipality of Aibonito, for the year ended June 30, 2002 disclosed that grant funds were generally administered in a satisfactory manner, except of the following situation:

1. No corrective action plan was developed to correct reported prior year findings. (See Prior year audit findings status). This situation maintains the Municipality of Aibonito in non compliance with administrative requirements for Federal Funds Management.

Recommendation:

The Corrective Action Plan must be designed and implemented as soon as possible.

Institution comment:

The Internal Auditor and the Finance Director are working on the Corrective Action Plan. It should be noted that corrective actions were taken on various situations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS**

AUDIT FINDINGS 2000-01:

1. Lack of reconciliation between disbursement register and check register prepared at the accounting department.

Recommendation:

At least a monthly reconciliation should be made for these records.

Finding status:

This situation was not observed during current year. Proper corrective action was taken.

2. We noted that the vehicle inventory and the machinery and equipment inventory include obsolete and scarp items.

Recommendation:

Obsolete scrap items should be written-off from the inventory registers.

Finding status:

This situation was partially corrected. Obsolete scrap items of machinery and equipment were written-off, although obsolete scrap vehicles still included as property inventory.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS
(Continued)**

3. We noted that property number of motor vehicle is not visible and some cases not printed in related property.

Recommendation:

The Municipality should require that property numbering procedures be implemented for motor vehicles.

Finding status:

This situation persisted during current year.

4. We noted that the following documents were missing for our examination:

<u>Date</u>	<u>Payee</u>	<u>Ref</u>	<u>Amount</u>
<u>Resoluciones Conjuntas:</u>			
08/10/00	Allied Construction	427	\$18,000.00
<u>Cuenta Corriente:</u>			
08/18/00	A.A.A.	24995	<u>4,667.05</u>
Total			<u>\$22,667.05</u>

Recommendation:

The Municipality should strive to obtain related supporting evidence for these disbursements.

Finding status:

Support documentation was obtained by the Municipality management.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS
(Continued)**

5. Lack of reconciliation between accounting record kept at SBGP federal project offices and the Finance Department official records of the Municipality.

Recommendation:

At least a monthly reconciliation should be made for these records.

Finding status:

This situation was not observed during current year. Proper corrective action was taken.

6. The following documents related to federal expenditures, were missing for our examination:

SBGP:

<u>Date</u>	<u>Payee</u>	<u>Ref</u>	<u>Amount</u>
04/10/01	Felix Rivera	1251	\$23,270.00
05/30/01	Salinas Asphalt	1264	45,000.00
06/05/01	Ferreteria Rivera	1268	13,532.83
			<u>\$81,802.83</u>

Existing:

08/17/00	Guillermina Rivera	3836	\$ 548.00
08/17/00	Ramon Ortiz	3838	120.00
08/17/00	Maria Lurengo	3867	242.00
08/17/00	Jose Colon	3872	206.00
09/13/00	Director Finanzas	3875	511.81
10/03/00	Esperanza Colon	3879	162.00
10/03/00	Benigno Rivera	3885	300.00
10/11/00	Director Finanzas	3903	511.81
10/30/00	Iris Rodriguez	3921	300.00
10/30/00	Esperanza Colon	3922	162.00
11/30/00	Luz E. Roque	3927	<u>265.00</u>
			<u>3,328.62</u>

Total \$85,131.45

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS
(Continued)**

Recommendation:

We recommend disallowance of claimed cost due to lack of supporting documentation.

Finding status:

As of the date of this audit report a final determination as to the allowability of these questioned cost, has not been issued by grantor. Municipality management has located documentation which is available for grantor examination.

7. We noted that the Municipality processed for payment invoices with incomplete information which were prepared by the Municipality personnel. We consider this documents as inadequate supporting evidence as follows:

FEMA 1247:

<u>Date</u>	<u>Payee</u>	<u>Ref</u>	<u>Amount</u>
N/A	Shortline Construction	N/A	\$22,440
N/A	BFI	N/A	<u>19,266</u>
Total			<u>\$41,706</u>

Recommendation:

We recommend disallowance of such claimed costs.

Finding status:

As of the date of this audit report a final determination as to the allowability of these questioned cost, has not been issued by grantor. Municipality management has located documentation which is available for grantor examination.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS
(Continued)**

AUDIT FINDINGS 1998-99:

1. Financial Reporting (liquidation) did not agree with source records (G/L). Also General Ledger is maintained only to operational accounts; real accounts (assets, liabilities and fund balance) are not included in General Ledger. The effect of this situation is the accounting record non compliance with GAAP.

Finding status:

This situation was partially corrected. The Municipality did not include all assets and liabilities in a General Ledger.

2. Lack of functional segregation in finance and accounting department. This situation result an incompatible functions under internal controls policies.

Finding status:

This situation persisted during the current year. A coordination meeting is needed to correct this situation.

3. During our examination we noted inactive balances in the SBGP program as follows:

<u>Fiscal year program</u>	<u>Amount</u>
1985	\$ 544
1986	1,199
1987	182
1989	12,035
1990	14,118
1991	16,532

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS
(Continued)**

Finding status:

This situation persisted during the current year. The SBGP Program personnel are working to correct the inactive balance in the account.

AUDIT FINDINGS 1997-98:

- 1. Personnel files incomplete

We noted the that Municipality personnel manual requires a minimum of documentation that should be maintained in each employee's file. During our test we noted certain documents missing in employee files.

Finding status:

This situation was not corrected. The Human Resources Department Director is working to complete all personnel files.

AUDIT FINDINGS 1993-96

- 1. **QUESTIONED COSTS:** Lack of supporting documentation

Audit Finding 1995-96

Housing Preservation	\$ 3,951
Sanitary Sewer	99,056
SBGP	1,140,583

Total Questioned Cost	\$1,243,590
	=====

Audit Finding 1994-95

SBGP	\$ 18,653
F.H.A.	12,531

Total Questioned Cost	\$ 31,184
	=====

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATUS OF PRIOR YEARS AUDIT FINDINGS
(Continued)**

Audit Finding 1993-94

SBGP	\$135,219
F.H.A (Sanitary Sewer)	253,925

Total Questioned Cost	<u>\$389,144</u>

Finding Status:

The Municipality obtained a clearance for the CDBG-SBGP funds. Municipality officers indicate that supporting data was found for the missing documentation and are available for the inspection by Grantor or its representative.

2. Supporting documentation was not available for various selected transactions of the General Fund of June 30, 1994, Totaling, \$238,624; June 30, 1995 Totaling, \$323,703; June 30, 1996, Totaling \$249,168.

Finding Status:

Municipality officers indicate that supporting data was found for many of the missing documentation and is available for examination.

AUDIT FINDINGS 1992-93:

1. The Municipality did not correct the prior year findings. OMB Common Rules, Subpart C, Section 85.26 (b) (3), stated that grantee must have an appropriate corrective action plan and put it in effect within next six months after receipt of the audit report in instance of noncompliance with federal laws and regulations.

Finding status:

This situation persisted during current year. Although the Internal Auditor and the Finance Director are working on the Corrective Action Plan. It should be noted that corrective actions were taken on various situations.

