

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE ARECIBO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF ARECIBO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF ARECIBO

YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF ARECIBO

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Arecibo**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The "Corporación de Desarrollo Cultural Teatro Oliver" is considered to be part of the reporting entity of the Municipality of Arecibo, as described in **Note 1**. We did not audit the financial statements of the "Corporación de Desarrollo Cultural Teatro Oliver". Which financial statements reflect total assets and revenues constituting \$4,783,750 and \$102,699, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on those financial statements, insofar as it relates to the amounts included for "Corporación de Desarrollo Cultural Teatro Oliver", is based solely on the report of the other auditors.

As described in **Note 8**, the Municipality has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2001.

INDEPENDENT AUDITORS' REPORT (Continued)

As disclosed in **Note 14**, at June 30, 2001, the Municipality had not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things that the Municipality estimates and recognizes the Municipal Solid Waste Landfill Closure and Post closure Care Costs. Accordingly, no provision for liability has been made in the financial statements.

In our opinion, except for the effect of fourth and fifth paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Arecibo** as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2001 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Arecibo**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. 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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 14, 2001

Stamp No.1700934 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES, ACCOUNT GROUPS AND COMPONENT UNIT
JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY) Primary Government	Component Unit	TOTAL (MEMORANDUM ONLY) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt			
ASSETS AND OTHER DEBITS									
Cash and cash equivalents	\$11,124,735	\$1,414,184		\$43,551			\$12,582,470	\$102,987	\$12,685,457
Cash with fiscal agent			\$3,885,992	8,005,382			11,891,374		11,891,374
Intergovernmental receivable	1,043,269						1,043,269		1,043,269
Municipal License tax receivable	24,797						24,797		24,797
Federal grants receivable		464,924					464,924		464,924
Due from other funds	247,133	379,311		4,185,626			4,812,070		4,812,070
Other Receivables	123,165						123,165	452,849	576,014
Property and Equipment					\$57,580,667		57,580,667	4,227,514	61,808,181
Amount available in Debt Service Fund						\$3,885,992	3,885,992		3,885,992
Amount to be provided for retirement of general long-term debt						46,292,786	46,292,786		46,292,786
Deposits								400	400
Total assets and other debits	\$12,563,099	\$2,258,419	\$3,885,992	\$12,234,559	\$57,580,667	\$50,178,778	\$138,701,514	\$4,783,750	\$143,485,264
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable and accrued liabilities	\$3,670,030	\$307,384		\$1,202,540			\$5,179,954	\$201,564	\$5,381,518
Due to other funds	4,564,937	247,133					4,812,070		4,812,070
Due to other governmental entities	3,458,885					\$371,563	3,830,448		3,830,448
Deferred municipal license tax revenues	10,468,803						10,468,803		10,468,803
Deferred federal grant revenues		1,204,656					1,204,656		1,204,656
General obligation bonds						26,293,000	26,293,000		26,293,000
Notes payable						9,256,764	9,256,764		9,256,764
Claims and judgments						4,465,537	4,465,537		4,465,537
HUD recovery of disallowed costs						6,597,475	6,597,475		6,597,475
Accrued compensated absences						3,194,439	3,194,439		3,194,439
Total liabilities	22,162,655	1,759,173		1,202,540		50,178,778	75,303,146	201,564	75,504,710
Fund equity and other credits									
Investment in general fixed assets					\$57,580,667		57,580,667		57,580,667
Fund balances:									
Reserved for encumbrances	570,894						570,894		570,894
Reserved for debt service			3,885,992				3,885,992		3,885,992
Unreserved:									
Designated for specific fund purposes		499,246		11,032,019			11,531,265		11,531,265
Undesignated	(10,170,450)						(10,170,450)		(10,170,450)
Net Assets:									
Unrestricted								4,512,898	4,512,898
Temporary restricted								69,288	69,288
Total fund equity (deficit) and other credits	(9,599,556)	499,246	3,885,992	11,032,019	\$57,580,667	-	63,398,368	4,582,186	67,980,554
Total liabilities and fund equity	\$12,563,099	\$2,258,419	\$3,885,992	\$12,234,559	\$57,580,667	\$50,178,778	\$138,701,514	\$4,783,750	\$143,485,264

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND COMPONENT UNIT
YEAR ENDED JUNE 30,2001

GOVERNMENTAL FUND TYPES

	GOVERNMENTAL FUND TYPES				TOTALS	Component Unit	TOTALS
	General	Special Revenue	Debt Service	Capital Projects	(MEMORANDUM ONLY) Primary Government		(MEMORANDUM ONLY) Reporting Entity
REVENUES							
Property taxes	\$10,641,733		\$3,224,453		\$13,866,186		\$13,866,186
Municipal license taxes	9,734,092				9,734,092		9,734,092
Licenses and permits	1,632,164				1,632,164		1,632,164
Intergovernmental	5,457,245	\$317,292		\$840,938	6,615,475		6,615,475
Rent of property	194,487				194,487		194,487
Fines and penalties	78,688				78,688		78,688
Interest	178,304				178,304		178,304
Federal grants		16,587,286			16,587,286		16,587,286
Miscellaneous	1,086,038				1,086,038	\$1,845	1,087,883
Donations						100,854	100,854
Total revenues	29,002,751	16,904,578	3,224,453	840,938	49,972,720	102,699	50,075,419
EXPENDITURES							
Current:							
Mayor and Municipal Assembly	2,743,200				2,743,200		2,743,200
General government	10,767,604	2,144,851			12,912,455		12,912,455
Public safety	1,690,620	12,206			1,702,826		1,702,826
Public works	3,858,547	478,417			4,336,964		4,336,964
Public health and sanitation	5,477,057				5,477,057		5,477,057
Welfare		12,829,875			12,829,875		12,829,875
Economic development	607,648				607,648		607,648
Culture and Recreation	531,327				531,327	38,826	570,153
Principal retirement	158,824	1,000,000	894,000		2,052,824		2,052,824
Interest	103,638	335,602	1,519,279		1,958,519		1,958,519
Capital outlays	58,907	129,524		4,392,067	4,580,498		4,580,498
Total expenditures	25,997,372	16,930,475	2,413,279	4,392,067	49,733,193	38,826	49,772,019
Excess (deficiency) of revenues over (under) expenditures	3,005,379	(25,897)	811,174	(3,551,129)	239,527	63,873	303,400
Fund balances (deficit), beginning as restated	(12,604,935)	525,143	3,074,818	14,583,148	5,578,174	4,518,313	10,096,487
Fund balances (deficit), ending	(\$9,599,556)	\$499,246	\$3,885,992	\$11,032,019	\$5,817,701	\$4,582,186	\$10,399,887

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$9,598,464	\$9,598,464	-	\$2,709,333	\$3,224,453	\$515,120
Municipal license taxes	10,540,000	9,734,092	(\$805,908)			
Licenses and permits	1,720,000	1,632,164	(87,836)			
Intergovernmental	5,644,045	5,457,245	(186,800)			
Rent of property	188,000	194,487	6,487			
Fines and penalties	40,000	78,688	38,688			
Interest	150,000	178,304	28,304			
Miscellaneous	1,365,149	1,086,038	(279,111)			
Total revenues	<u>29,245,658</u>	<u>27,959,482</u>	<u>(1,286,176)</u>	<u>2,709,333</u>	<u>3,224,453</u>	<u>515,120</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	3,035,933	2,992,559	43,374			
General government	12,625,818	10,863,088	1,762,730			
Public safety	1,796,813	1,696,668	99,945			
Public works	4,276,863	3,813,844	463,019			
Public health and sanitation	5,873,824	5,576,463	297,361			
Economic development	692,401	607,648	84,753			
Recreation	585,514	537,803	47,711			
Principal retirement	158,324	158,824	(500)	1,508,676	894,000	614,676
Interest	103,638	103,638	-	1,200,657	1,519,279	(318,622)
Capital outlays	96,730	58,907	37,823			
Total expenditures and encumbrances	<u>29,245,658</u>	<u>26,409,442</u>	<u>2,836,216</u>	<u>2,709,333</u>	<u>2,413,279</u>	<u>296,054</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances		1,550,040	1,550,040		811,174	811,174
Adjustment required under Generally Accepted Accounting Principles:						
Current year encumbrances treated as current year expenditures for budgetary basis		570,894				
Prior year encumbrances		(158,824)				
GAAP adjustments to revenues		1,043,269				
Fund balances (deficit), beginning as restated		<u>(12,604,935)</u>			<u>3,074,818</u>	
Fund balance (deficit), ending		<u>(\$9,599,556)</u>			<u>\$3,885,992</u>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
STATEMENT OF CASH FLOWS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2001

Cash flows from operating activities:

Excess of revenues over expenses	<u>\$63,873</u>
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities:	
Other accounts receivable	109,495
Accounts payable	174,930
	<hr/>
Total adjustments	<u>284,425</u>
Net cash provided by operating activities	<u>348,298</u>

Cash flows from investing activities:

Used on building construction	(338,369)
Equipment acquisition	<u>(20,000)</u>
Net cash used by financing activities	<u>(358,369)</u>

Net increase in cash and cash equivalent, restricted	(10,071)
Cash and Cash equivalents at beginning of period, restricted	<u>113,058</u>
Cash and Cash equivalents at end of period, restricted	<u><u>\$102,987</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Arecibo** (the Municipality) was established in 1616. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

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

"Corporación Desarrollo Cultural Teatro Oliver" is a non-profit corporation duly organized and existent under the laws of the Commonwealth of Puerto Rico. It was established to acquire, restore and operate the Teatro Oliver of Arecibo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED):

A. Financial reporting entity (continued):

The Municipality's financial statements include as a component unit the operations of Teatro Oliver, because of the financial interdependency, ability to designate management and the ability to significantly influence operations demonstrated by the Municipality.

The Teatro Oliver elected the provision of Section 101 (7) of the Puerto Rico Income Tax Law for non-profit organization and all of their net revenues are exempt from the payment of income taxes.

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

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

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

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of presentation:

Proprietary fund types:

The Enterprise Fund is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, are financed or recovered primarily through user charges.

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt -is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter 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 corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

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 essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of accounting:

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred.

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

E. Budgetary data (continued):

- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- 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 general-purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

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

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as an expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent:

Debt Service Fund: represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

Enterprise Fund: Additional cash with a fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited for the expenditures associated with "Commercial Pavilion of Areca Rafael Hernandez Colón."

Capital Project Fund: Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Compensated absences:

Municipal employees are granted 30 days of vacation 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 an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Puerto Rico Electric Power Authority	\$ 16,939
Retirement System Administration	1,059,847
Puerto Rico Telephone Company	601,724
Puerto Rico Aqueduct and Sewer Authority	565,174
General Services Administration	14,529
Internal Revenue Service	1,189,179
Department of Treasury	<u>11,493</u>
	<u>\$3,458,885</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Department of Labor	<u>\$371,563</u>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.58% for real property and 6.58% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property which is recorded in the General Fund, and the additional tax of 1.75% in both cases which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

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.

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the preliminary liquidation noting that the collections were in excess of advances by \$ 2,086,537. The Municipality received \$1,043,269 which represents 50% of the preliminary liquidation. Such amount was recognized as revenues in the fiscal year 2001-2002. The remaining balance \$1,043,269 was included as intergovernmental receivables in the General Fund at June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$4,092,555
Certificates of deposit (90 days or less)	<u>8,592,902</u>
Total cash and cash equivalents	<u>\$12,685,457</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, building and equipment.

A summary of changes in the General Fixed Assets Account Group is as follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2001</u>
Real Estate Property	\$40,407,498		\$3,355,000		\$43,762,498
Vehicles	3,055,784		99,504	(\$24,800)	\$3,130,488
Equipment	<u>11,497,213</u>	<u>(\$847,113)</u>	<u>66,472</u>	<u>(28,891)</u>	<u>10,687,681</u>
Total	<u>\$54,960,495</u>	<u>(\$847,113)</u>	<u>\$3,520,976</u>	<u>(\$53,691)</u>	<u>\$57,580,667</u>

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 25,458,000
Debt issued	-
Principal retirements	(894,000)
Adjustments / Reclassifications	<u>1,729,000</u>
Balance at June 30, 2001	<u>\$ 26,293,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS(CONTINUED):

General obligation bonds at June 30, 2001 are as follows:

<u>Type of bonds</u>	<u>Maturity date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2001</u>
1984 Series	1/1/2009	\$675,000	5.00%	\$ 310,000
1987 Series	1/1/2012	875,000	5.00%	552,000
1989 Series	1/1/2014	500,000	5.00%	345,000
1990 Series	7/1/2005	3,395,000	4.37% to 7.81%	1,670,000
1991 Series	7/1/2006	2,060,000	3.26% to 6.36%	1,170,000
1994 Series	1/1/2019	400,000	4.88%	365,000
1995 Series	7/1/2020	14,975,000	4.70% to 8.00%	13,775,000
1998 Series	1/1/2023	900,000	4.75%	846,000
1999 Series	7/1/2024	7,365,000	5.88% to 7.81%	7,260,000
Total general obligation bonds				<u>\$26,293,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2002	\$ 969,000
2003	1,046,000
2004	1,136,000
2005	1,232,000
2006	1,337,000
Thereafter	<u>20,573,000</u>
Total	<u>\$26,293,000</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 11,449,588
Debt issued	-
Principal retirements	(1,158,824)
Adjustments/ Reclassifications	(1,034,000)
Balance at June 30, 2001	<u>\$ 9,256,764</u>

Notes payable at June 30, 2001 are as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
Special Lottery	7/1/2008	3,000,000	8.00%	\$ 1,111,764
1994 Series	7/1/2014	5,335,000	9.00%	4,570,000
Section 108 Loan	8/1/2003	9,575,000	7.00%	<u>3,575,000</u>
Total notes payable				<u>\$ 9,256,764</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 1,268,648
2003	1,335,000
2004	1,930,000
2005	375,000
2006	395,000
Thereafter	<u>3,953,116</u>
Total	<u>\$ 9,256,764</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. COMPONENT UNIT:

The accompanying statement of component unit present a statement of balance sheet, a statement of revenue, expenses and changes in fund balance and cash flows statement for "Corporación Desarrollo Cultural Teatro Oliver" (non-profit corporation) prepared on the accrual basis of accounting.

The Corporación Desarrollo Cultural Teatro Oliver

Nature and Organization

The "Corporación Desarrollo Cultural Teatro Oliver"(non-profit corporation) was organized under the Laws of the Commonwealth of Puerto Rico. The Corporation was established to acquire "El Teatro Oliver of Arecibo" to be restored and operate as Municipal Theater.

The financial statements of "Teatro Oliver" for the year ended September 30,2000 were included as a component unit in the financial statements. These financial statements were audited by other certified public accounting firm and an unqualified report was issued on April, 3, 2001.

CODEA- The "Corporación de Desarrollo Económico del Atlántico" (CODEA) ceased operations and was dissolved by December 1995.

The Municipality still maintains the agreement entered by the above date with the "Banco Gubernamental de Fomento" in which the Municipality is in charge of the management of all remaining rent income collections of CODEA. These collections are remitted to an special account at the "Banco Gubernamental de Fomento" to amortize an outstanding loan balance of CODEA with the said bank.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

Years of Service	Participant Age	Pension Benefits
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving 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 contributions 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 14, 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's account semi-annually.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS(CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED):

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with 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.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 490,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employees services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED):

applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the System.

13. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

14. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2001, the Municipality has not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated obligation for landfill closure and post closure costs.

15. OPERATING LEASES:

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's account groups.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

15. OPERATING LEASES (CONTINUED):

<u>Year ending June 30,</u>	<u>Amounts</u>
2002	\$ 227,143
2003	253,188
2004	129,196
2005	49,200
2006	<u>37,500</u>
Total minimum payments required	\$ <u>696,227</u>

16. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. According to OIG Audit 99-AT- 241-1001 issued in November 5, 1998 the Municipality has been inefficient and ineffective in the administration of the Community Development Block Grant and Section 108 Loan Guarantee Assistance Programs. As result of that HUD through the Community Planning & Development Division notify to the Municipality to reimburse the amount of \$ 6,847,476 for questioned costs. At audit date the Municipality reimbursed \$250,000.

At the present the Municipality participate in a number of Federal Financial Assistance Programs and we have no knowledge of any amount of expenditures, which may be disallowed by the granting agencies, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

16. COMMITMENTS AND CONTINGENCIES (CONTINUED):

During May, 2001 the Municipality entered in an agreement with HUD to repay the outstanding debt that was included in the general long-term debt account group. Payments amortizations were stated as follows:

<u>DATE</u>	<u>PAYMENT AMORTIZATION</u>
December 15, 2001	\$320,623
February 15, 2002	733,658
September 15 2002	733,658
February 15, 2003	733,658
September 15, 2003	733,658
February 15, 2004	733,658
September 15, 2004	733,658
February 15, 2005	733,658
September 15, 2005	<u>1,141,246</u>
Total Payments	<u><u>\$6,597,475</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

16. COMMITMENTS AND CONTINGENCIES(CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$4,465,537 in the general long-term debt account group for anticipated unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of estimated as probable liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

In addition, the Municipality is a defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. The final outcome of these claims cannot be determined by legal counsel with the information currently available. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

17. BEGINNING FUND BALANCES (DEFICITS) RESTATEMENT:

The beginning Fund Balances (Deficit) for General, Special Revenue and Capital Projects Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental funds, as follows:

Description	General	Special Revenue	Capital Projects
Beginning Fund Balances (Deficit) at July 1, 2000	(\$11,071,106)	\$4,752,015	\$8,684,201
Funds reported as General Fund instead of Special Revenue Fund	(151,474)	151,474	
Municipal License Taxes Receivable erroneously recorded	(354,839)		
Errors in due from other funds	(34,893)		
Errors in due to Governmental Agencies (PREPA)	(143,398)		
To reclassify General Fund debt to GLTD Account Group as per our analysis	1,141,246		
Accounts Receivable Other that not comply with the modified accrual accounting requirements	(1,980,136)		
Funds reported as General Fund instead of Special Revenue Fund	(10,335)	10,335	
To correct due from General Fund as per our analysis		894,539	
Funds reported as Special Revenue instead of Capital Project Fund		(52,926)	52,926
To reclassify due from General Fund to Capital Project Fund		(4,133,662)	4,133,662
Due from General Fund Balance erroneously recorded		(536,420)	
To record Deferred Revenue as per our analysis		(797,862)	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

17. BEGINNING FUND BALANCES RESTATEMENT (CONTINUED):

Description	General	Special Revenue	Capital Projects
To record Accounts Receivable from Federal Government as per our analysis		237,650	
Errors in Cash with Fiscal Agent balance			1,712,359
Beginning Fund Balances (Deficit) at July 1, 2000, as restated	(\$12,604,935)	\$525,143	\$14,583,148

18. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On July 6, 2001 the Municipality of Arecibo issued an special obligation bond in the amount of \$10,545,000. The interest rate of this debt is 12%. The bond will be repaid with operational funds. Repayment of the bond is scheduled for July 2002 through July 2026.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$ <u>992,861</u>
Total U.S. Department of Agriculture			<u>992,861</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Community Development Block Grants/Entitlement Grants	14.218		2,334,117
Direct Program: Urban Development Action Grant	14.221		104,063
Direct Program: Emergency Shelter Grants Program	14.231		84,346
Direct Program: HOME Investment Partnerships Program	14.239		513,222
Direct Program: (Cluster of Programs) Section 8 Rental Voucher Program	14.855		2,711,845
Section 8 Rental Certificate Program	14.857		<u>390,215</u>
Total Cluster of Programs			<u>3,102,060</u>
Total U.S. Department of Housing and Urban Development			<u>6,137,808</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnerships and Community Policing Grants (COPS)	16.710		421
Pass-through the Commonwealth Office of the Governor (CFWM):			
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	Not Available	<u>110,674</u>
Total U.S. Department of Justice			<u>111,095</u>
U.S FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA):			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Emergency Management - State and Local Assistance	83.534	Not Available	11,765
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	Not Available	<u>478,417</u>
Total U.S. FEMA			<u>490,182</u>
U.S DEPARTMENT OF EDUCATION:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Safe and Drug Free Schools and Communities State Grant	84.186	Not Available	<u>57,845</u>
Total U.S. Department of Education			<u>57,845</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Program:			
Community Preventions Coalitions (Partnership) Demonstration Grant	93.194		17,636
Pass-through the Commonwealth of Puerto Rico Governor's Office (Elderly Office): Special Programs for Aging - Title III, Part B - Grant for Supportive Services and Senior Centers	93.044	Not Available	376,844
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Community Services Block Grant	93.569	Not Available	15,509
Child Care and Development Block Grant	93.575	Not Available	200,272
Head Start	93.600	02-CH-0483-35 02-CH-0483-36	8,187,234
Total U.S. Department of Health and Human Services			<u>8,797,495</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 16,587,286</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Arecibo** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue
Per Schedule of Expenditures of Federal Awards	\$ 16,587,286
Non federal programs Expenditures	343,189
Total expenditures in the general purpose financial statements	\$ 16,930,475

3. SUBRECIPIENTS:

The **Municipality of Arecibo** provided Federal Awards to subrecipients as follow:

Program Title	Federal CFDA Number	Amount Provided
Community Development Block Grants/Entitlement Grants	14.218	\$ 165,000



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

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

We have audited the general purpose financial statements of the **Municipality of Arecibo** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 14, 2001, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Arecibo'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 general purpose 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 of Arecibo's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Arecibo's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **01-01** through **01-06**.

**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 (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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe items **01-02** and **01-03** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Arecibo** in a separate letter dated December 14, 2001.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 14, 2001

Stamp No.1700935 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

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

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

Compliance

We have audited the compliance of the **Municipality of Arecibo** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality of Arecibo's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Arecibo's** management. Our responsibility is to express an opinion on the **Municipality of Arecibo's** compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 of Arecibo'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 of Arecibo's** compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Arecibo** with the Head Start Program, regarding the earmarking requirements related to the administrative cost limits (finding 01-26) and enrollment levels (finding 01-27), nor were we able to satisfy ourselves as to the **Municipality of Arecibo's** compliance with those requirements by other auditing procedures.

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Arecibo's** compliance with the requirements of Head Start Program regarding the earmarking requirements related to the administrative cost limits and enrollment levels, the **Municipality of Arecibo's** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30,2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-07** through **01-13**, **01-15** through **01-20**, **01-24**, **01-29**, and **01-31**.

Internal Control Over Compliance

The management of the **Municipality of Arecibo** 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 of Arecibo'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 the **Municipality of Arecibo's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-07** through **01-24**, and **01-26** through **01-31**.



**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB-CIRCULAR A-133(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 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 on 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 material weakness. However, of the reportable conditions described above, we consider items **01-08** through **01-10**, **01-14** through **01-16**, **01-20**, **01-22**, **01-24**, **01-26** through **01-28**, and **01-31** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Arecibo** in a separate letter dated December 14, 2001.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 14, 2001

Stamp No.1700936 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2001

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: **Qualified**

Internal control over financial reporting:

Material weakness identified? Yes X No

Reportable conditions identified not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes X No

Reportable conditions identified not considered to be material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance for major programs: **Qualified**

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnership Program
93.600	Head Start Program

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

Auditee qualified as low-risk auditee? Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-01
Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal Funds) and Account Groups.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference 01-02

Requirement	Equipment and real property management
Statement of Condition	During our examination of the Municipality's property records we noted that the procedures followed to record and account for equipment and real estate property are inadequate in order to assure that all assets are properly recorded and accounted for. The property registers are not reliable since the information contained is not updated or completed.
Criteria	The federal regulations states that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that Municipality should maintain updated property accounting records.
Cause of Condition	There is no internal control procedure implemented in order to assure that property register includes all equipment and real estate inventory.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding property transactions.
Recommendation	The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real property and equipment as well as Construction in progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information. The person in charge of the Municipal Property should realize an annual physical inventory of equipment and real property in order to actualize subsidiary ledger and assure that the property that exist is duly recorded in subsidiary ledger. The person in charge of Municipal Property should maintain daily communication with the Purchase Department of the Municipality and with the Federal Programs employee in charge of the property and equipment in order to assure that all property and equipment acquired during the year is properly recorded in the subsidiary ledger.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-03
Requirement	Financial Reporting
Statement of Condition	The Municipality did not include in its general-purpose financial statements, an estimate of the obligation for landfill closure and post closure.
Criteria	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
Cause of Condition	The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.
Effect of Condition	Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
Recommendation	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference 01-04

Requirement Payroll and Related Liabilities - Payroll Preparation and Timekeeping

Statement of Condition We performed a payroll test and examined a sample of sixty (60) personnel files. The following will summarize the deficiencies noted:

- a. Three (3) employees' accumulative vacation cards were not available for examination.
- b. Four (4) employees time card for the period ending June 15, 2001 were not available for examination.
- c. We found that in two (2) cases the employee gross wage per payroll did not match with the OCAP 15.
- d. The Recreation Department submitted to the Human Resources Department a detail of weekly hours worked by all employees signed only by the supervisor instead of the individual time assistance cards signed by each employee and the supervisor.
- e. The time assistance card were not approved by the supervisor in thirteen (13) cases.
- f. The accumulative vacations card was incomplete in one (1) case as of audit date.
- g. The Municipality did not discount from accumulative vacation card 2.5 days taken by two (2) employees.
- h. In one case the Municipality accrued four (4) days in excess of the amount applicable by law to vacations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference 01-04 (continued)

- i. The Municipality paid the entire month of June, 2001 charged to sick leave to one (1) employee. We found no evidence on file of license request and a sick license duly signed by a certified physician.
- j. Two (2) employees did not register the lunch hour in the time assistance card and the supervisor approved those assistance cards without a proper evaluation.
- k. The Accumulative Vacation Card of one (1) employee was incomplete at audit date. In addition, the employee took vacations in the month of June 2001 and the Municipality did not discount those days from Accumulative Vacation Card. The License request documentation was not available for examination.
- l. One (1) employee took six (6) days on October, 2000 and nine (9) days on January, 2001 that were not discounted from the sick leave accumulative card. In addition, the license request documentation was not available for examination.

Criteria	The Revised Regulations on Basic Standards for the Municipalities of P.R. in the Chapter IV Section 18-(1) establishes that the Municipality will prepare the payroll based on the employee files.
Cause of Condition	There is no internal control procedure implemented to assure the correctness of accumulative vacation and sick leave balances.
Effect of Condition	The Municipality did not maintain an adequate control over the personnel files and the vacation and sick leave computation worksheet.
Recommendation	The Municipality will prepare an operational manual to establish procedures to actualize employee files. Also, monitoring procedures will be implemented to assure the correctness of the accumulative vacations and sick leave cards.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-05**

Requirement **Cash Receipts, Excise Taxes and Municipal License Taxes**

Statement of Condition We performed a cash receipt test and examined a sample of sixty (60) receipts. We noted the following exceptions:

- a. The Governmental Bank transferred funds to the Municipality by a debit memo and the Municipality did not prepare a treasurer cash receipt after five days.
- b. We found no evidence of permits from "ARPE" to prepare the tax calculation on eight (8) taxpayers files for excise taxes. The Municipality does not maintain adequate files of excise tax in order to be examined by us. As result we could not ascertain the correctness of the project estimates submitted by the taxpayers to the Municipality.
- c. We could not reconcile the total Volume of Business as per return to the amount reported in the Audited Financial Statements in one (1) taxpayer file.
- d. The audited financial statements of three (3) taxpayer were not available for examination.
- e. The municipal license tax certificates of seven (7) taxpayers were not available for examination.
- f. The time extension for the submission of the Municipal License Tax was not available for examination in one (1) taxpayer file.
- g. We noted that for one (1) taxpayer the time extension to submit Municipal License Tax has ended and the audited financial statements were not received in the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-05 (Continued)**

Criteria The Section Four (4) of the Chapter three (3) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes that the Official Collector should realized a daily revision of amount collected and amounts debited in bank by governmental agencies to assure that the revenues has been duly processed in the period of collection.

The Chapter (9) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico state that the Municipality should maintain adequately documented taxpayer files including evidence of audited financial statement in the case of taxpayers with a volume of business in excess of one million \$1,000,000, Municipal License Tax Certificate, etc.

Cause of Condition There is no internal control procedure implemented to assure that Taxpayer files are properly documented.

Effect of Condition Municipality did not maintain an adequate control to determine which taxpayer has submitted the required documentation to comply with excise tax and municipal license tax regulation.

Recommendation Municipality should implement the following procedures in order to avoid these situations in a future:

- a. Maintain daily communication with the bank who transfers funds by a debit memo to the municipality, in order to assure that the cash receipt has been prepared in the period that funds are transferred to the municipality.
- b. Assign an employee to prepare a file including the “ARPE” estimate, contracts and other information necessary to assure that excise tax computation for construction projects are duly documented in order to be examined by the auditors.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-05 (Continued)**

- c. Assign an employee to review that all Municipal License Tax taxpayers who requested a time extension in order to ascertain that they submitted the audited financial statement as required by law. In case of noncompliance with the time extension the Municipality should proceed to eliminate the 5% discount taken and apply interest and penalties.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-06**

Requirement **Expenditures for Goods and Services and Accounts Payables-
Purchasing and receiving**

Statement of Condition We performed a cash disbursement test and examined 47 disbursement vouchers related to general fund expenditures. The following will summarize the deficiencies noted:

- a. One (1) invoice was not signed by the supplier.
- b. Five (5) cancelled checks were not available for examination.
- c. One (1) disbursement voucher was not cancelled as paid.
- d. Three (3) quotations were not available for examination in two (2) disbursement vouchers.
- e. In one (1) case the Purchase Order and the Disbursement Voucher did not indicate the account number where the disbursement was recorded.
- f. The Finance Department did not post in the Encumbrance Subsidiary Register two (2) disbursement vouchers.
- g. In ten (10) cases the Purchase Orders to reserve the necessary credits for the services were prepared subsequently to the payment.
- h. In one (1) disbursement voucher a Professional Service invoice did not detail the hours incurred and the days that the services were rendered.
- i. In two (2) disbursement vouchers the Report of receipt and inspection of goods acquired or services rendered was not signed by the Department Director who received the goods or services.
- j. In one (1) disbursement voucher the travel expenses payment realized to an employee related to mileage was computed incorrectly.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-06 (Continued)
	<p>k. The Municipality realized five (5) payments related to claims and judgments dictated in prior years and the purchase order was issued in the current year. In addition, we found no evidence on four (4) disbursement vouchers of the approval of the claims payment by the Municipal Assembly.</p> <p>l. Three (3) disbursement vouchers were paid with the copy of the invoice instead the original invoice.</p> <p>m. The Municipality realized one (1) payment using the proposal instead of an invoice which detail the goods provided and the services rendered.</p> <p>n. We noted that a supplier that offered services of maintenance of computer equipment submitted a monthly invoice that did not detail the hours and services rendered during the period. In addition, the contract does not specify the required service hours per month.</p> <p>o. One (1) disbursement voucher was not available for examination.</p>
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in the Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.</p>
Cause of Condition	<p>The Municipality did not establish effective internal control in order to assure that all transactions include all the required documentation.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-06 (Continued)
Effect of Condition	The Municipality is in not compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend that the Municipality should improve its internal control and procedures in order to assure that disbursement vouchers contain all the necessary supporting documents before making the payments. Also we recommend that the Municipality should improve its procedures to assure that at least three quotations are requested for purchases of goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed these limits.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-07
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Eligibility
Statement of Condition	<p>During our test of participants of Tenant Based Rental Assistance and Homebuyer Assistance we noted the following exceptions:</p> <ul style="list-style-type: none">a. We noted that in three (3) files of Tenant Based Rental Assistance and in one (1) file of Homebuyer Assistance we did not find evidence of the inspections of the rental unit at the beginning of the contract.b. The Social Security copy was not available for examination in two (2) participant files of Tenant Based Rental Assistance.c. The Buy and Sell agreement was not available of examination for one (1) participant of Homebuyer Assistance.
Criteria	<p>Code of Federal Regulations, 24 CFR, Subpart E, Section 92.203 states that the program should maintain records that document the eligibility of each family. In addition, the Section 92.209 (I) states that housing occupied by a family receiving tenant based rental assistance or homebuyer assistance should meet the criteria stated in the 24 CFR 982.401. The participant jurisdiction must inspect the housing initially and re-inspect it annually.</p>
Cause of Condition	<p>There are no adequate internal controls to assure that all participants files contains all required documents. The Municipality has not assigned a responsible person to assure that the initial and annual inspection are performed as required by regulation.</p>
Effect of Condition	<p>Municipality is not in compliance with, 24 CFR, Subpart E, Section 92.203, Section 92.209 (I) and 982.401.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-07 (Continued)
Recommendation	We recommend management to follow monitoring system procedures developed by it in order to assure that all participants files include the required information and initial inspections an annual re-inspection be performed as required by regulation.
Questioned Costs	None
Management Response	The Mayor will issue written orders regarding the required Housing Quality Standards inspections to be performed for new rental assistance and homebuyer assistance. No Home program contract will be signed by the Mayor if the Municipal Development Director does not certify that such inspection is satisfactory and properly filed. February 20, 2002 is the anticipated completion date in order to avoid the finding in the future.

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MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-08
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized the Cash Management Test and found the following exceptions: <ul style="list-style-type: none">a) The program does not properly document all requisitions of funds realized through IDIS System.b) There is no audit trail to reconcile the funds received from the Federal Agency with the disbursement of checks.c) During the examination of a requisition of funds realized on November, 2000 we noted that the program did not realized the disbursement of funds after three months of been received from the Federal Agency.d) The program maintains an excessive average cash balance in books of \$31,665.
Criteria	Code of Federal Regulations, 24 CFR Subpart I, Section 92.502 states that Home funds must be expended for eligible costs within 15 days. Any interest earned within the 15 days period may be retained by the participant jurisdiction as Home funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD. Interest earned after 15 days belongs to the United States and must be remitted promptly, at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed in a period of 15 days.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-08 (Continued)
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart I, Section 92.502.
Recommendation	We recommend management to follow monitoring system procedures developed by it, in order to assure that funds requested to the federal agency are disbursed in not more than 15 days.
Questioned Costs	None
Management Response	The program established a form to maintain adequately documented the requisitions of funds realized through the IDIS system and the audit trail to reconcile the funds received from the federal agency with the disbursement of checks.

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MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-09
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Equipment and Real Property Management
Statement of Condition	We realized the Equipment and Real Property Management test and we found the following exceptions: <ul style="list-style-type: none">a) We noted that the Municipality does not maintain adequate and accurate records to account for additions or disposition of property and equipment.b) The Property Subsidiary Ledger does not provide the supplier name and address of the supplier who sold the equipment.c) The program doesn't realize a periodic physical inventory.d) The program does not maintain a subsidiary ledger to account Real Property.
Criteria	Subpart C, 24 CFR 82.32 (d) (1), states that property records must be maintained which includes a description of the property, serial number or other identification number, the source of the property, percentage of federally participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of the disposal, sale price of the property. Also, a physical inventory of the property must be taken and the result reconciled with the property records at least once every two years. Subpart C, 24 CFR 85.31 states a similar regulation for the preparation of the Real Property Subsidiary.
Cause of Condition	There are no adequate internal controls to assure that the property register includes all the property acquired by the program.
Effect of Condition	Municipality is not in compliance with 24 CFR, 83.32 (d) (1) and 85.31.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-09**

Recommendation We recommend management to realize a physical inventory in order to actualize the property subsidiary ledger. In addition, the person in charge of the Property should maintain daily communication with the Purchase Department in order to assure that all Property acquired with Home funds are properly recorded in the subsidiary ledger.

Questioned Costs None

Management Response The program established an Equipment Data Entry Form that will be used to register all equipment and real estate acquisition and disposition.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-10
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Earmarking- Investment in Community Housing Development Organizations (CHDO's)
Statement of Condition	During our earmarking test we noted that the program maintained \$463,813 of funds assigned from 1996 to 2001 that has not been obligated to assist non-profit organizations. In addition, the program has not established projects to develop the capacity of CHDO's.
Criteria	24 CFR, Section 92.300 states that each participating jurisdiction must invest at least 15 percent of each year's HOME allocation in projects which are owned, developed or sponsored by a special non-profit organizations called CHDO's. If during the first 24 months of its participation in the HOME Program a participating jurisdiction cannot identify a sufficient number of capable CHDO's, then up to 20 percent of the minimum set-aside but not more than \$150,000 may be available to develop the capacity of CHDO's in the jurisdiction.
Cause of Condition	The program did not establish a plan to develop CHDO's as required by regulation.
Effect of Condition	Municipality is not in compliance with 24 CFR, Section 92.300
Recommendation	We recommend to the management that establishes a plan to identify non-profit organizations interested in participating in the program and proceed to develop those organizations in order to certified as CHDOs.
Questioned Costs	None
Management Response	The program has designated a CHDO presently under capacity building technical assistance with the Fundación Comunitaria de Puerto Rico. Once the entity is fully accredited, the Municipality will be in the position to fund its activities with the CHDO set aside.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-11
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that two (2) contracts did not include a provision for compliance with EO-1991-55 (Certification of Income Tax), two (2) contracts did not include a provision for compliance with suspension and debarment, one (1) contract did not include a provision for compliance with sections 103 and 107 of the Contracts Work Hours and Safety Standards Act, one (1) contract did not include provisions for granting access to GAO or other federal agencies, to books, documents, etc., one (1) contract not include a provision for compliance with "Anti-kickback" (Contracts for construction and repairs) and one (1) contract did not include a provision for retention of all required records for a period of three years.
Criteria	24 CFR, Subpart C, Section 85.36 (I) (1-13), states that sub grantee's contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	The Municipality did not maintain appropriate procurement standard procedures in order to assure that contractor complies with the federal regulations.
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36 (I) (1-13).
Recommendation	We recommend management to update the contract sample according with the federal requirements.
Questioned Costs	None
Management Response	The program will prepared a contract sample with the required clauses in order to avoid this situation in the future.

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MUNICIPALITY OF ARECIBO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-12
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Program Income
Statement of Condition	We noted that the program maintained \$19,434 of program income in the bank during the year and did not use those funds for allowable activities as required by federal regulations.
Criteria	Code of Federal Regulations, 24 CFR, Subpart K, Section 92.503 states that program income must be used for additional Home projects pursuant to the written agreement and the action plan which stated that program income will be used for eligible activities.
Cause of Condition	There are no adequate internal controls to assure that the program utilized program income before requesting additional fund requisitions to the federal agency.
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart K, Section 92.503.
Recommendation	We recommend to the management to develop a monitoring system in order to assure that the program uses the program income before the requisition of additional funds to the federal agency.
Questioned Costs	None
Management Response	The program income is kept in the bank account pending for disbursement prior requisition from IDIS. Such transaction has been entered since November 27, 2001 in IDIS. In February 2002 the program utilized \$15,000 of the program income maintained in bank.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-13
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Special Tests and Provisions - Housing Quality Standards
Statement of Condition	We realized procedures to verify the compliance with special test and noted that for Homebuyer Assistance the program has not established adequate procedures to assure that on site inspections are performed to all program participants.
Criteria	Code of Federal Regulations, 24 CFR Section 92.251, 92.252 and 92.504 states that during the period of affordability for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine the compliance with property standards and verify the information submitted by the owners no less than: (a) Every three years for projects containing one to four units, (b) Every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units.
Cause of Condition	The program did not establish procedures to assure that inspections are realized to Homebuyer assistance participants.
Effect of Condition	Municipality is not in compliance with 24 CFR, Section 92.251, 92.252 and 92.504.
Recommendation	We recommend to the management to develop a monitoring system in order to assure that on site inspections are realized to Homebuyer Assistance participants as required by federal regulation.
Questioned Costs	None
Management Response	The Mayor will issue written orders regarding the required Housing Quality Standards inspections to be performed for new rental assistance and homebuyer assistance. No Home program contract will be signed by the Mayor if the Municipal Development Director does not certify that such inspection is satisfactory and properly filed. February 20, 2002 is the anticipated completion date to avoid the finding in the future.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-14
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Special Tests and Provisions - Draw down of Home Funds
Statement of Condition	We realized procedures to verify the compliance with special test and noted that one (1) employee is in charge of performing the function of setting up projects and performing the drawing down of funds.
Criteria	Code of Federal Regulations, 24 CFR, Section 92.502 states that the participating jurisdictions are required to have different staffs setting up projects and drawing down funds.
Cause of Condition	There are no adequate internal controls to assure that staffs who realize draw down of funds are not the one that perform the set up projects.
Effect of Condition	Municipality is not in compliance with 24 CFR, Section 92.502.
Recommendation	The program should establish internal control procedures and monitoring system to assure that staffs who set up project do not perform the drawing down of funds.
Questioned Costs	None
Management Response	The program prepared a memo detailing the staff assigned to drawing down funds and set up projects.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-15
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and found the following exceptions: <ul style="list-style-type: none">a) The program does not maintain properly documented requisitions of funds realized through IDIS System.b) The Municipality does not maintain adequate audit trail to reconcile the funds received from the Federal Agency with the disbursements of checks.c) The program prepared a disbursement voucher for \$45,000 on June, 2001 for relocation assistance for a contract that was voided and the funds were not reprogrammed for allowable activities as of 8/27/01.
Criteria	OMB Common Rule, Subpart C, Section 85.20 (b) (7), requires a cash management system in order to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursements made by the grantee.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	Municipality is not in compliance with OMB Common Rule, Subpart C, Section 85.20 (b) (7).

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-15 (Continued)**

Recommendation We recommend management to follow monitoring system procedures developed by it, in order to assure that funds requested are disbursed as required by the regulation.

Questioned Costs None

Management Response The program established a form to maintain adequately documented the requisitions of funds realized through the IDIS system and the audit trail to reconcile the funds received from the federal agency with the disbursement of checks.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-16
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Equipment and Real Property Management
Statement of Condition	<p>We realized the Equipment and Real Property Management test and we found the following exceptions:</p> <ul style="list-style-type: none">a) We noted there are no adequate and accurate records to account for additions or disposition of property and equipment.b) The Property Subsidiary Ledger does not detail the supplier name and address of the supplier who sold the equipment.c) The program has not realized a periodic physical inventory.d) The program does not maintain a subsidiary ledger to account for the Real Property.e) No tags or property ID were placed in various equipment units.f) The program realized two (2) disbursements to acquire real property that was not included in the Real Property Subsidiary.g) The program realized two (2) disbursements to acquire equipment that was not included in the Equipment Subsidiary.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-16 (Continued)**

Criteria Subpart C, 24 CFR 82.32 (d) (1), states that property records must be maintained which include a description of the property, serial number or other identification number, the source of the property, percentage of Federally participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of the disposal, sale price of the property. Also, a physical inventory of the property must be taken at least once every two years and the result reconciled with the property records. 24 CFR 85.31 states a similar regulation for the preparation of the Real Property Subsidiary.

Cause of Condition There are no adequate internal controls to assure that the property register includes all the property acquired by the program.

Effect of Condition Municipality is not in compliance with 24 CFR, 83.32 and 85.31.

Recommendation We recommend management to realize a physical inventory in order to actualize the property subsidiary. In addition, the person in charge of the Property should maintain daily communication with the Purchase Department in order to assure that all property acquired with CDBG funds is properly recorded in the subsidiary ledger.

Questioned Costs None

Management Response The program established an Equipment Data Entry Form that will be used to register all equipment and real estate entry and disposition.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-17
Program	Community Development Block Grant/ Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that the contracts did not include provisions for compliance with suspension and debarment, provisions for compliance with sections 103 and 107 of the Contracts Work Hours and Safety Standards Act, provisions for granting access to GAO or other federal agencies, to books, documents, etc. Also, one (1) contract did not include provisions for compliance with Copeland "Anti-kickback" Act (Contracts for construction and repairs).
Criteria	24 CFR, Subpart C, Section 85.36 (I) (1-13), states that sub grantee's contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	Federal Program Department did not maintain appropriate procurement standard procedures in order to assure that contractor complies with federal regulations.
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36 (I) (1-13).
Recommendation	We recommend management to update the contract sample according with the federal requirements.
Questioned Costs	None
Management Response	The program will prepare a contract sample with the required clauses in order to avoid the situation in the future.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-18
Program	Community Development Block Grant/ Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Program Income
Statement of Condition	We noted that the program maintained \$9,246 of program income in the bank collected during the year and did not use those funds for allowable activities as required by federal regulation.
Criteria	Code of Federal Regulations 24, Subpart C, and Section 85.25 states that program income should be used for current costs unless the Federal Agency authorizes otherwise.
Cause of Condition	There are no adequate internal control in order to assure that the program uses program income before requesting additional fund requisitions to the federal agency.
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart C, Section 85.25.
Recommendation	We recommend management to follow monitoring system procedures developed by it in order to assure that the program uses program income available before the requisition of additional funds to the federal agency.
Questioned Costs	None
Management Response	The program income is kept in the bank account pending disbursement prior requisition from IDIS.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-19
Program	Community Development Block Grant/ Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Real Property Acquisition and Relocation Assistance
Statement of Condition	<p>We noted the following exceptions in the relocation of the project La Puntilla:</p> <ul style="list-style-type: none">a. The Relocation Assistance appraisals were not examined by a review appraiser.b. In one (1) case it took the program from 1996 to 1999 to offer a replacement unit to a participant. In addition, we found no evidence on file supporting that the program examined at least three replacements units.c. In one (1) file we did not find evidence of a written justification for provisions if the replacement housing payment exceed \$22,500.d. The participant files did not include the following HUD forms required by the federal government:<ul style="list-style-type: none">- HUD 40054- Claim for Moving and Related Expenses.- HUD 40057- Claim of Replacement Housing Payment for 180 days Homeowner.- HUD 40061 Selection of Most Representative Comparable Replacement Dwelling.e. The relocation assistance contract related to one (1) disbursement was not signed by both parties and not included the date that was formalized.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-19 (Continued)
Criteria	Code of Federal Regulation, 24 CFR, Subpart K, Section 570.606 and the 49 CFR Subpart E, Part 24 States the government-wide regulations for Uniform Relocation Assistance and Real Property Acquisitions Policies Act of 1970 (URA) (42 U.C.S. 4601-4655). Those regulations required that the compensation to participants it's determined by an appraisal process, duly verified by a review appraiser. Also, a written justification is prepared if purchase price exceeds the offer. In addition one or more comparable dwelling units has been made available to the participants, etc.
Cause of Condition	The program did not maintain appropriate procedures in order to fulfill all requirements required by relocation assistance regulations.
Effect of Condition	The program is in not in compliance with Code of Federal Regulation, 24 CFR, Subpart K, Section 570.606 and the 49 CFR Subpart E, Part 24.
Recommendation	We recommended the program to establish adequate internal control procedures in order to complete all HUD forms required for relocation assistance projects. Also, follow the regulations procedures in order to avoid these situations in the future.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-20
Program	Community Development Block Grant/ Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Sub-recipient Monitoring
Statement of Condition	During our examination of sub-recipient monitoring we noted that at audit date the program has not assigned a staff to realize monitoring activities. Also, the contracts do not include clauses related to program income generated by sub-recipients and no conditions for religious organizations.
Criteria	24 CFR Section 570.503 states that before disbursing any CDBG funds to a sub-recipient the Municipality should assure that the agreement between parties include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements. In addition, the Municipality must perform monitoring activities in order to review the financial information and observes that operations of the sub-recipients are realized in accordance with the agreement.
Cause of Condition	There are no adequate internal controls to assure that sub-recipients comply with the clauses established in the contracts.
Effect of Condition	Municipality is not in compliance with 24 CFR, Section 570.503.
Recommendation	We recommend management to establish adequate procedures to comply with this requirement.
Questioned Costs	None
Management Response	The program has assigned a staff to perform sub-recipient monitoring and to establish an itinerary of the monitoring process to be performed in order to comply with this requirement.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-21
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Financial Reporting
Statement of Condition	During our examination of reporting requirements we noted the following exceptions: <ul style="list-style-type: none">a) The Cash Transaction Report (272) corresponding to the period from 4/1/01 to 6/30/01 was not submitted on time to HUD.b) We found differences mainly related to interest income between the cash collected as reported in the Cash Transaction Report (272) and the amount recorded on books.c) The Reports generated by IDIS system COPR03- Activity Summary Report and CO4PR26 - CDBG Financial Summary were not submitted on time to HUD.
Criteria	According to 24 CFR, Section 85.41 to meet the reporting requirements, the Municipality should submit to HUD the Cash Transaction Reports within fifteen (15) days after the reporting period. The Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077) requires the grantees that as part of the annual performance and evaluation report the program should submit the required reports for the CDBG Entitlement Program 90 days after the end of a grantees program year.
Cause of Condition	The program has not establishes adequate internal control procedures to assure the correctness of the reports and the timely submission to HUD.
Effect of Condition	The Municipality did not comply with 24 CFR Section 85.41 and OMB No. 2506-0077.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-21 (Continued)
Recommendation	We recommend that the required reports be prepare including all the required information and submitted in a timely manner. If the deadline is not achievable, a request for an extension should be obtained from the federal agency.
Questioned Costs	None
Management Response	The program submits the report to HUD.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-22
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Special Test and Provisions- Housing Rehabilitation
Statement of Condition	<p>During our Housing Rehabilitation test we noted the following exceptions:</p> <ul style="list-style-type: none">a) The participant files did not include evidence of the property deeds.b) The participant files did not include evidence of inspections realized by the program in order to verify the rehabilitation process of the housing units.c) The Labor Contract did not detail the total funds delegated to perform residential rehabilitation.d) The program coordinator did not duly sign the agreement between the program and the participant.e) The agreement was not available in one (1) participant file.f) We noted that in one (1) file the inspector signed the final certification representing that the housing rehabilitation was duly performed but the certification did not include a worksheet detailing the inspection process in order to document that all materials donated were used by the participant as per the agreement.
Criteria	According to 24 CFR, Section 570.506 states that when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed.
Cause of Condition	The program did not establish adequate internal control procedures to assure that rehabilitations are duly completed as required by regulation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-22 (Continued)**

Effect of Condition The Municipality did not comply with 24 CFR Section 570.506.8

Recommendation We recommend the Program to establish the following procedures:

- a) Realize pre-rehabilitation inspections describing the deficiencies to be corrected.
- b) Ascertain that the deficiencies to be corrected are incorporated into the rehabilitation contract.
- c) Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications.
- d) Assure that all participant files include all required documentation duly approved and certified.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-23
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Allowable cost- cost principle
Statement of Condition	<p>During our disbursement test of Head Start Program we noted the following deficiencies:</p> <ul style="list-style-type: none">a) Fourteen (14) disbursement vouchers were not cancelled as paid.b) The program paid \$156 for readmission charges for services offered by a University to the program staffs. Those charges were not detailed in the contract.c) The program contracted two (2) Universities to offer continued education to the program staffs. No bid procedures were performed. During a quarter the Municipality paid \$26,653 for continued education to one (1) University for forty (40) students and \$28,906 to another university for twenty (20) students. The second University exceeded the fee per student for approximately forty-five dollars.d) Various disbursements vouchers related to payroll payments were not signed by the Mayor, Official Payee and pre-intervention office staff. In addition, various vouchers did not include the payroll detail.e) The program obtained about \$300,000 in loans from Child Care Food Program and no supporting documents of loan requisitions were included in the disbursement voucher. In addition, we consider that this activity is not allowable for Child Care Food Program.f) Two cancelled checks were not available for examination.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference

01-23 (Continued)

- g) We found a mathematical error in a check payment to an employee. The check slip recalculation indicated the payroll payment as \$928.27 and the check issued by the accounting system was realized by \$893.27 for a difference of \$35.00.
- h) We noted that the program realized a transfer of funds to the payroll account with a difference of \$342 between payroll detail and the transfer of funds. That difference occurred since one employee was included in the payroll detail with two Social Security numbers. The program made the necessary adjustment in the payroll transfer but did not document it in the disbursement voucher or in the payroll detail.
- i) We noted that the program signed a contract and the purchase order was issued four months later.
- j) The program did not maintain an accurate Encumbrance Register. We noted that various purchase orders were not recorded in the register.
- k) We noted that about six hundred checks were voided during the audit period and those checks were not available for examination. In addition, the program did not prepare an explanation letter indicating the reason to void those checks.
- l) We noted that the bid files were disorganized and various documents as bid bonds, performance bonds, etc. were not available for examination in seven bid files examined.

Criteria

Code of Federal Regulations, Subpart C, 45 CFR 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, contracts and sub grant award documents and others.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-23 (Continued)
Cause of Condition	The Program did not maintain adequate controls to assure that all disbursements made have all supporting documents.
Effect of Condition	The program is not in compliance with CFR, Subpart C, 45 CFR 92.20 (b) (6).
Recommendation	We recommend to the management to improve the internal control procedures in order to avoid these situations in the future.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-24
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and we found the following exceptions: a) The program did not maintain the proper documentation (Audit Trail) necessary to reconcile the funds received from the pass-through agency with the disbursement of checks. b) During nine (9) months the cash as per bank reconciliation was in overdraft.
Criteria	OMB Common Rule, Subpart C, Section 92.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursements made by the grantee.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	Municipality is not in compliance with 45 CFR, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend to the management to develop a monitoring system, in order to assure that funds requested are disbursed as required by the regulation.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-25
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Equipment and Real Property Management
Statement of Condition	During our test we noted that the program transferred equipment items with a cost of \$40,051 to the Municipality of Arecibo. Such equipment items were acquired with Head Start program funds and were not been used for the development of Head Start program activities. We did not find evidence on files of ADFAN approving such transaction. This situation represents a noncompliance with the grant agreement.
Criteria	<p>Subpart C, 45 CFR 92.32 (d) (1), states that property records must be maintained which include a description of the property, serial number or other identification number, the source of the property, percentage of Federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of the disposal and sale price of the property.</p> <p>A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. 45 CFR 92.31 states a similar regulation for the preparation of the Real Property Subsidiary.</p> <p>The Grant agreement states in the 19th clause of the contract that the Administration of Families and Children’s should retain the property title of the equipment acquired with federal funds assigned for the development of the approved proposal in addition to all equipment donated to the project.</p>
Cause of Condition	There are no adequate internal controls to assure that property disposals are performed as required by regulations stated in the grant agreement.
Effect of Condition	Municipality is not in compliance with the Grant Agreement.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-25 (Continued)**

Recommendation We recommend to the management to realize a physical inventory in order to actualize the property subsidiary. In addition the person in charge of the Property should assure that property disposition is realized as required by regulations. The program should request the Municipality the devolution of the equipment transferred.

Questioned Costs None

Management Response The program request the approval to ADFAN

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-26
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Matching, Level of Effort, Earmarking
Statement of Condition	The program did not prepare and submit to ADFAN the 15 percent Administration expenses report for the fiscal year ended February 28, 2001. As result we could not verify if the program complies with this requirement.
Criteria	45 CFR, Section 1301.32 states that the cost of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the non-federal contribution to such costs.
Cause of Condition	The Municipality did not establish adequate internal control procedures to assure that administration costs do not exceed 15 percent of annual total costs.
Effect of Condition	The program is not in compliance with 45 CFR, Section 1301.32.
Recommendation	We recommend to the program to prepare the administrative cost report in order to comply with federal regulations.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-27
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Matching, Level of Effort, Earmarking
Statement of Condition	We noted that the detail of participants that exceed low-income limits only includes those admitted in year 2000. That list did not include those participants active in the program during the year 2000 which were admitted in year 1999. As result, we couldn't assure the reliability of the detail submitted to us of 142 participants over low-income limits that represent 9 percent of total program participants.
Criteria	45 CFR, Section 1305.4, establishes that at least 90 percent of the enrollees must come from families whose income is below the Official Federal Poverty Guidelines or who are receiving public assistance.
Cause of Condition	The program did not maintain adequate internal controls to assure that the program does not exceed 10 percent requirement of participant above poverty guides
Effect of Condition	The program is in not compliance with 45 CFR Section 1305.4.8
Recommendation	We recommend that the Municipality should review their procedures for enrollment of the participants according to their income levels and develop policies and procedures to reduce the risk of noncompliance with this requirement.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-28
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Matching, Level of Effort, Earmarking
Statement of Condition	<p>In our Participants Files Test, whose sample is constituted by the 90 percent of low income participants and which is realized to support our Earmarking Test, we noted the following exceptions:</p> <ul style="list-style-type: none">a. The program has not prepared a procedures manual to establish the official documentation to be requested to the participants.b. The program did not request to the participants copy of the Social Security Card and Birth Certificate to assure participant family composition.c. The employment certification was not signed by the employer in five (5) participant files.d. The Social Security number of one (1) participant was not included in the application.e. Various participants did not submit evidence from the Department of Family or the Department of Labor to assure that they were unemployed.f. Two (2) participant files were not available for examination.
Criteria	<p>45 CFR, Section 1305.4, establishes that at least 90 percent of the enrollees must come from families whose income is below the Official Federal Poverty Guidelines or who are receiving public assistance.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-28 (Continued)
Cause of Condition	The Municipality did not apply the necessary internal controls procedures to assure the compliance with this federal requirement.
Effect of Condition	The program is in not compliance with 45 CFR Section 1305.4.
Recommendation	We recommend that the Municipality should review their procedures for enrollment of the participants according to their income levels and develop policies and procedures to reduce the risk of noncompliance with this requirement.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-29
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that the contracts examined did not include provisions for granting access to GAO or other federal agencies, to books, documents, etc. Also, no provisions were included for retention of all required records for a three years period.
Criteria	45 CFR, Subpart C, Section 92.36 (I) (1-13), states that sub grantee's contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	Federal Program Department did not maintain appropriate procurement standard procedures in order to assure that contractor complies with procurement requirements.
Effect of Condition	Municipality is not in compliance with 45 CFR, Subpart C, Section 92.36 (I) (1-13).
Recommendation	We recommend management to update contract model according with the federal requirement.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-30
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Reporting
Statement of Condition	All year-end reports that we examined were submitted after the deadline. Also, there is no evidence that proves the submission date of the closing reports.
Criteria	The contract between ADFAN (pass-through entity) and the Municipality states that the final year reports should be submitted within the first twenty days after the ending of the program year.
Cause of Condition	No adequate internal control exists to assure the submission of closing reports as required by grant agreement.
Effect of Condition	The Municipality did not comply with the contract terms that require the timely submission of reports to ADFAN.
Recommendation	We recommend that the Municipality should review their procedures for submitting the reports and develop policies and procedures to reduce the amount of time required to submit such reports.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-31
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Special Test-Licensing Requirement
Statement of Condition	In our Special Test-Licenses Verification for 10 Centers used by Head Start we noted the following exceptions: a) The Fire Department licenses were expired in six centers. b) The Health Department licenses were expired in five centers and were not available for examination in two centers. c) The ADFAN license was expired in six centers and was not available for examination in four centers.
Criteria	45 CFR, Section 1306.30 (c), establishes that the facilities used by Early Head Start and Head Start grantees for regularly scheduled center-based and combination program option class room activities or home-based group socialization activities must comply with applicable State and Local requirements concerning operating permits.
Cause of Condition	The Municipality did not establish procedures to assure that Head Start centers maintain actualize licenses from ADFAN, Health Department and the Fire Department.
Effect of Condition	The Municipality is not in compliance with 45 CFR, Section 1306.30 (c).

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-31 (continued)**

Recommendation We recommend that the Municipality should review the Centers files to assure completeness of the required documentation and perform periodically follow-up procedures in order to update such files. Also, the Municipality should establish routine visits to the different centers in order to assure that the centers are in very good conditions necessary to comply with the permits requirement.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-19	Various programs	<p><u>Records Retention</u></p> <p>No corrective action has been taken. The Municipality assigned an employee to actualize the real property subsidiary ledger.</p>
00-20	14.855	<p><u>Records Retention</u></p> <p>Partial corrective action has been taken. The Municipality has assigned an employee to maintain an adequate control of disbursement vouchers and all documents that support a disbursement.</p>
00-21	93.575	<p><u>Records Retention</u></p> <p>Full corrective action has been taken.</p>
00-22	83.544	<p><u>Procurement procedures and contract provisions</u></p> <p>No corrective action has been taken. The Municipality has assigned an employee to maintain an adequate control of disbursement vouchers and all documents that support the disbursement.</p>
00-23	93.194	<p><u>Records Retention</u></p> <p>Full corrective action has been taken.</p>
00-24	93.044	<p><u>Records Retention</u></p> <p>Full corrective action has been taken.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-25	14.218	<p><u>Cash Management</u></p> <p>No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002</p>
00-26	10.558	<p><u>Cash Management</u></p> <p>No corrective action has been taken. Pending of corrective action plan.</p>
00-27	93.194	<p><u>Cash Management</u></p> <p>No corrective action has been taken. Pending of corrective action plan.</p>
00-28	14.855	<p><u>Cash Management</u></p> <p>No corrective action has been taken. The Municipality establish procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002</p>
00-29	14.221	<p><u>Cash Management</u></p> <p>No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002</p>
00-30	14.218	<p><u>Cash Management</u></p> <p>No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-31	14.218	<u>Cash Management</u> No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002.
06/30/99 02	Various programs	<u>Records Retentions</u> No corrective action has been taken. The Municipality assigned an employee to actualize the real property subsidiary ledger.
06/30/99 04	14.239	<u>Records Retentions</u> Full corrective action has been taken.
06/30/99 05	93.600	<u>Records Retention</u> Partial corrective action has been taken. The Municipality has assigned an employee to maintain an adequate control of disbursement vouchers and all documents that support the disbursement.
06/30/99 11	14.855	<u>Cash Management</u> No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002.
06/30/99 12	93.600	<u>Cash Management</u> No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/99 13	10.558	<u>Cash Management</u> No corrective action has been taken. Pending of corrective action plan.
06/30/99 14	14.857	<u>Cash Management</u> No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002.
06/30/99 15	14.221	<u>Cash Management</u> No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002
06/30/99 16	14.218	<u>Cash Management</u> No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/99 17	14.218	<p><u>Cash Management</u></p> <p>No corrective action has been taken. The Municipality established procedures for the correction of the cash management findings through an internal memorandum issued on January 28, 2002.</p>
06/30/98 18	14.218	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/98 19	14.218	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/98 20	14.239	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/98 21	14.857	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/98 22	14.855	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/98 23	93.600	<p><u>Cash Management</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/97 06/30/96 06/30/95 24	14.855 & 93.600	<u>Cash Management</u> Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.
06/30/97 06/30/96 06/30/95 25	93.600	<u>Cash Management</u> Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.
06/30/97 06/30/96 06/30/95 26	14.218	<u>Records Retention</u> Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/97 06/30/96 06/30/95 27	14.218	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/97 06/30/96 06/30/95 28	Various Special Funds	<p><u>Records Retentions</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/97 06/30/96 06/30/95 29	93.600	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/97 06/30/96 06/30/95 30	14.218	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/97 06/30/96 06/30/95 31	14.855	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 32 and 33	93.600	<p><u>Records Retention</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/94 06/30/93 34 and 35	14.218	<p><u>Davis Bacon Act</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 36	14.218	<p><u>Davis Bacon Act</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 37	14.857	<p><u>Supporting Data for Annual Contribution submitted lately to HUD</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 38	Various Programs	<p><u>Legal Basis- Inaccurate Financial Management to provide accurate and complete disclosures of the financial results.</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/94 06/30/93 39	Various Programs	<p><u>Legal Basis- Lack of documentation related to Real Property.</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 40	93.600	<p><u>Legal Basis- Obligations paid after the period of availability</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 41	93.600	<p><u>Legal Basis- Cash Management</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06/30/94 06/30/93 42	93.600	<p><u>Legal Basis- Incomplete Accounting Records</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/94 06/30/93 43	14.855	<p><u>Legal Basis- Inadequate waiting list for selection of participants.</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>
06/30/92 06/30/91 06/30/90 06/30/89 06/30/88 06/30/87 06/30/86	Various Programs	<p><u>Various findings</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issue a final decision respect to the finding.</p>

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

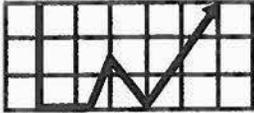
COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF ARECIBO

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Arecibo**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The "Corporación de Desarrollo Cultural Teatro Oliver" is considered to be part of the reporting entity of the Municipality of Arecibo, as described in Note 1. We did not audit the financial statements of the "Corporación de Desarrollo Cultural Teatro Oliver". Which financial statements reflect total assets and revenues constituting \$4,783,750 and \$102,699, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on those financial statements, insofar as it relates to the amounts included for "Corporación de Desarrollo Cultural Teatro Oliver", is based solely on the report of the other auditors.

INDEPENDENT AUDITORS' REPORT (Continued)

As described in **Note 8**, the Municipality has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2001.

As disclosed in **Note 14**, at June 30, 2001, the Municipality had not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things that the Municipality estimates and recognizes the Municipal Solid Waste Landfill Closure and Post closure Care Costs. Accordingly, no provision for liability has been made in the financial statements.

In our opinion, except for the effect of such adjustment the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Arecibo** as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

Lopez Vega, CPA, PSC
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 14, 2001

Stamp No.1700904 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES, ACCOUNT GROUPS AND COMPONENT UNIT
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY) Primary Government	Component Unit	TOTAL (MEMORANDUM ONLY) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt			
ASSETS AND OTHER DEBITS									
Cash and cash equivalents	\$11,124,735	\$1,414,184		\$43,551			\$12,582,470	\$102,987	\$12,685,457
Cash with fiscal agent			\$3,885,992	8,005,382			11,891,374		11,891,374
Intergovernmental receivable	1,043,269						1,043,269		1,043,269
Municipal License tax receivable	24,797						24,797		24,797
Federal grants receivable		464,924					464,924		464,924
Due from other funds	247,133	379,311		4,185,626			4,812,070		4,812,070
Other Receivables	123,165						123,165	452,849	576,014
Property and Equipment					\$57,580,667		57,580,667	4,227,514	61,808,181
Amount available in Debt Service Fund						\$3,885,992	3,885,992		3,885,992
Amount to be provided for retirement of general long-term debt						46,292,786	46,292,786		46,292,786
Deposits								400	400
Total assets and other debits	\$12,563,099	\$2,258,419	\$3,885,992	\$12,234,559	\$57,580,667	\$50,178,778	\$138,701,514	\$4,783,750	\$143,485,264
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable and accrued liabilities	\$3,670,030	\$307,384		\$1,202,540			\$5,179,954	\$201,564	\$5,381,518
Due to other funds	4,564,937	247,133					4,812,070		4,812,070
Due to other governmental entities	3,458,885					\$371,563	3,830,448		3,830,448
Deferred municipal license tax revenues	10,468,803						10,468,803		10,468,803
Deferred federal grant revenues		1,204,656					1,204,656		1,204,656
General obligation bonds						26,293,000	26,293,000		26,293,000
Notes payable						9,256,764	9,256,764		9,256,764
Claims and judgments						4,465,537	4,465,537		4,465,537
HUD recovery of disallowed costs						6,597,475	6,597,475		6,597,475
Accrued compensated absences						3,194,439	3,194,439		3,194,439
Total liabilities	22,162,655	1,759,173		1,202,540		50,178,778	75,303,146	201,564	75,504,710
Fund equity and other credits									
Investment in general fixed assets					\$57,580,667		57,580,667		57,580,667
Fund balances:									
Reserved for encumbrances	570,894						570,894		570,894
Reserved for debt service			3,885,992				3,885,992		3,885,992
Unreserved:									
Designated for specific fund purposes		499,246		11,032,019			11,531,265		11,531,265
Undesignated	(10,170,450)						(10,170,450)		(10,170,450)
Net Assets:									
Unrestricted								4,512,898	4,512,898
Temporary restricted								69,288	69,288
Total fund equity (deficit) and other credits	(9,599,556)	499,246	3,885,992	11,032,019	\$57,580,667	-	63,398,368	4,582,186	67,980,554
Total liabilities and fund equity	\$12,563,099	\$2,258,419	\$3,885,992	\$12,234,559	\$57,580,667	\$50,178,778	\$138,701,514	\$4,783,750	\$143,485,264

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND COMPONENT UNIT
YEAR ENDED JUNE 30,2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY) Primary Government	Component Unit	TOTALS (MEMORANDUM ONLY) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects			
REVENUES							
Property taxes	\$10,641,733		\$3,224,453		\$13,866,186		\$13,866,186
Municipal license taxes	9,734,092				9,734,092		9,734,092
Licenses and permits	1,632,164				1,632,164		1,632,164
Intergovernmental	5,457,245	\$317,292		\$840,938	6,615,475		6,615,475
Rent of property	194,487				194,487		194,487
Fines and penalties	78,688				78,688		78,688
Interest	178,304				178,304		178,304
Federal grants		16,587,286			16,587,286		16,587,286
Miscellaneous	1,086,038				1,086,038	\$1,845	1,087,883
Donations						100,854	100,854
Total revenues	29,002,751	16,904,578	3,224,453	840,938	49,972,720	102,699	50,075,419
EXPENDITURES							
Current:							
Mayor and Municipal Assembly	2,743,200				2,743,200		2,743,200
General government	10,767,604	2,144,851			12,912,455		12,912,455
Public safety	1,690,620	12,206			1,702,826		1,702,826
Public works	3,858,547	478,417			4,336,964		4,336,964
Public health and sanitation	5,477,057				5,477,057		5,477,057
Welfare		12,829,875			12,829,875		12,829,875
Economic development	607,648				607,648		607,648
Culture and Recreation	531,327				531,327	38,826	570,153
Principal retirement	158,824	1,000,000	894,000		2,052,824		2,052,824
Interest	103,638	335,602	1,519,279		1,958,519		1,958,519
Capital outlays	58,907	129,524		4,392,067	4,580,498		4,580,498
Total expenditures	25,997,372	16,930,475	2,413,279	4,392,067	49,733,193	38,826	49,772,019
Excess (deficiency) of revenues over (under) expenditures	3,005,379	(25,897)	811,174	(3,551,129)	239,527	63,873	303,400
Fund balances (deficit), beginning as restated	(12,804,935)	525,143	3,074,818	14,583,148	5,578,174	4,518,313	10,096,487
Fund balances (deficit), ending	(\$9,599,556)	\$499,246	\$3,885,992	\$11,032,019	\$5,817,701	\$4,582,186	\$10,399,887

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$9,598,464	\$9,598,464	-	\$2,709,333	\$3,224,453	\$515,120
Municipal license taxes	10,540,000	9,734,092	(\$805,908)			
Licenses and permits	1,720,000	1,632,164	(87,836)			
Intergovernmental	5,644,045	5,457,245	(186,800)			
Rent of property	188,000	194,487	6,487			
Fines and penalties	40,000	78,688	38,688			
Interest	150,000	178,304	28,304			
Miscellaneous	1,365,149	1,086,038	(279,111)			
Total revenues	<u>29,245,658</u>	<u>27,959,482</u>	<u>(1,286,176)</u>	<u>2,709,333</u>	<u>3,224,453</u>	<u>515,120</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	3,035,933	2,992,559	43,374			
General government	12,625,818	10,863,088	1,762,730			
Public safety	1,796,613	1,696,668	99,945			
Public works	4,276,863	3,813,844	463,019			
Public health and sanitation	5,873,824	5,576,463	297,361			
Economic development	692,401	607,648	84,753			
Recreation	585,514	537,803	47,711			
Principal retirement	158,324	158,824	(500)	1,508,676	894,000	614,676
Interest	103,638	103,638	-	1,200,657	1,519,279	(318,622)
Capital outlays	96,730	58,907	37,823			
Total expenditures and encumbrances	<u>29,245,658</u>	<u>26,409,442</u>	<u>2,836,216</u>	<u>2,709,333</u>	<u>2,413,279</u>	<u>296,054</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances		1,550,040	1,550,040		811,174	811,174
Adjustment required under Generally Accepted Accounting Principles:						
Current year encumbrances treated as current year expenditures for budgetary basis		570,894				
Prior year encumbrances		(158,824)				
GAAP adjustments to revenues		1,043,269				
Fund balances (deficit), beginning as restated		<u>(12,604,935)</u>			<u>3,074,818</u>	
Fund balance (deficit), ending		<u><u>(\$9,599,556)</u></u>			<u><u>\$3,885,992</u></u>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
STATEMENT OF CASH FLOWS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2001

Cash flows from operating activities:

Excess of revenues over expenses	\$63,873
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities:	
Other accounts receivable	109,495
Accounts payable	174,930
	284,425
Total adjustments	284,425
Net cash provided by operating activities	348,298

Cash flows from investing activities:

Used on building construction	(338,369)
Equipment acquisition	(20,000)
	(358,369)
Net cash used by financing activities	(358,369)
Net increase in cash and cash equivalent, restricted	(10,071)
Cash and Cash equivalents at beginning of period, restricted	113,058
Cash and Cash equivalents at end of period, restricted	\$102,987

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Arecibo** (the Municipality) was established in 1616. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

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

"Corporación Desarrollo Cultural Teatro Oliver" is a non-profit corporation duly organized and existent under the laws of the Commonwealth of Puerto Rico. It was established to acquire, restore and operate the Teatro Oliver of Arecibo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED):

A. Financial reporting entity (continued):

The Municipality's financial statements include as a component unit the operations of Teatro Oliver, because of the financial interdependency, ability to designate management and the ability to significantly influence operations demonstrated by the Municipality.

The Teatro Oliver elected the provision of Section 101 (7) of the Puerto Rico Income Tax Law for non-profit organization and all of their net revenues are exempt from the payment of income taxes.

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

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

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

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of presentation:

Proprietary fund types:

The Enterprise Fund is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, are financed or recovered primarily through user charges.

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt -is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter 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 corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

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 essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of accounting:

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred.

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2001**

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

E. Budgetary data (continued):

- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- 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 general-purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

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

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as an expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent:

Debt Service Fund: represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

Enterprise Fund: Additional cash with a fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited for the expenditures associated with "Commercial Pavilion of Areca Rafael Hernandez Colón."

Capital Project Fund: Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Compensated absences:

Municipal employees are granted 30 days of vacation 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 an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Puerto Rico Electric Power Authority	\$ 16,939
Retirement System Administration	1,059,847
Puerto Rico Telephone Company	601,724
Puerto Rico Aqueduct and Sewer Authority	565,174
General Services Administration	14,529
Internal Revenue Service	1,189,179
Department of Treasury	<u>11,493</u>
	<u>\$3,458,885</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Department of Labor	<u>\$371,563</u>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.58% for real property and 6.58% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property which is recorded in the General Fund, and the additional tax of 1.75% in both cases which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

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.

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the preliminary liquidation noting that the collections were in excess of advances by \$ 2,086,537. The Municipality received \$1,043,269 which represents 50% of the preliminary liquidation. Such amount was recognized as revenues in the fiscal year 2001-2002. The remaining balance \$1,043,269 was included as intergovernmental receivables in the General Fund at June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$4,092,555
Certificates of deposit (90 days or less)	<u>8,592,902</u>
Total cash and cash equivalents	<u>\$12,685,457</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, building and equipment.

A summary of changes in the General Fixed Assets Account Group is as follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2001</u>
Real Estate Property	\$40,407,498		\$3,355,000		\$43,762,498
Vehicles	3,055,784		99,504	(\$24,800)	\$3,130,488
Equipment	11,497,213	(\$847,113)	66,472	(28,891)	10,687,681
Total	<u>\$54,960,495</u>	<u>(\$847,113)</u>	<u>\$3,520,976</u>	<u>(\$53,691)</u>	<u>\$57,580,667</u>

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 25,458,000
Debt issued	-
Principal retirements	(894,000)
Adjustments / Reclassifications	<u>1,729,000</u>
Balance at June 30, 2001	<u>\$ 26,293,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS(CONTINUED):

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1984 Series	1/1/2009	\$675,000	5.00%	\$ 310,000
1987 Series	1/1/2012	875,000	5.00%	552,000
1989 Series	1/1/2014	500,000	5.00%	345,000
1990 Series	7/1/2005	3,395,000	4.37% to 7.81%	1,670,000
1991 Series	7/1/2006	2,060,000	3.26% to 6.36%	1,170,000
1994 Series	1/1/2019	400,000	4.88%	365,000
1995 Series	7/1/2020	14,975,000	4.70% to 8.00%	13,775,000
1998 Series	1/1/2023	900,000	4.75%	846,000
1999 Series	7/1/2024	7,365,000	5.88% to 7.81%	7,260,000
Total general obligation bonds				<u>\$26,293,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 969,000
2003	1,046,000
2004	1,136,000
2005	1,232,000
2006	1,337,000
Thereafter	<u>20,573,000</u>
Total	<u>\$26,293,000</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 11,449,588
Debt issued	-
Principal retirements	(1,158,824)
Adjustments/ Reclassifications	(1,034,000)
Balance at June 30, 2001	\$ 9,256,764

Notes payable at June 30, 2001 are as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
Special Lottery	7/1/2008	3,000,000	8.00%	\$ 1,111,764
1994 Series	7/1/2014	5,335,000	9.00%	4,570,000
Section 108 Loan	8/1/2003	9,575,000	7.00%	3,575,000
Total notes payable				\$ 9,256,764

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 1,268,648
2003	1,335,000
2004	1,930,000
2005	375,000
2006	395,000
Thereafter	3,953,116
Total	\$ 9,256,764

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. COMPONENT UNIT:

The accompanying statement of component unit present a statement of balance sheet, a statement of revenue, expenses and changes in fund balance and cash flows statement for "Corporación Desarrollo Cultural Teatro Oliver" (non-profit corporation) prepared on the accrual basis of accounting.

The Corporación Desarrollo Cultural Teatro Oliver

Nature and Organization

The "Corporación Desarrollo Cultural Teatro Oliver"(non-profit corporation) was organized under the Laws of the Commonwealth of Puerto Rico. The Corporation was established to acquire "El Teatro Oliver of Arecibo" to be restored and operate as Municipal Theater.

The financial statements of "Teatro Oliver" for the year ended September 30,2000 were included as a component unit in the financial statements. These financial statements were audited by other certified public accounting firm and an unqualified report was issued on April, 3, 2001.

CODEA- The "Corporación de Desarrollo Económico del Atlántico" (CODEA) ceased operations and was dissolved by December 1995.

The Municipality still maintains the agreement entered by the above date with the "Banco Gubernamental de Fomento" in which the Municipality is in charge of the management of all remaining rent income collections of CODEA. These collections are remitted to an special account at the "Banco Gubernamental de Fomento" to amortize an outstanding loan balance of CODEA with the said bank.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2001**

12. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving 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 contributions 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 14, 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's account semi-annually.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS(CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED):

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with 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.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 490,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employees services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED):

applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the System.

13. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

14. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2001, the Municipality has not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated obligation for landfill closure and post closure costs.

15. OPERATING LEASES:

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's account groups.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

15. OPERATING LEASES (CONTINUED):

<u>Year ending June 30,</u>	<u>Amounts</u>
2002	\$227,143
2003	253,188
2004	129,196
2005	49,200
2006	<u>37,500</u>
Total minimum payments required	<u>\$ 696,227</u>

16. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. According to OIG Audit 99-AT- 241-1001 issued in November 5, 1998 the Municipality has been inefficient and ineffective in the administration of the Community Development block Grant and Section 108 Loan Guarantee Assistance Programs. As result of that HUD trough the Community Planning & Development Division notify to the Municipality to reimbursed the amount of \$ 6,847,476 for questioned costs. At audit date the Municipality reimbursed \$250,000.

At the present the Municipality participate in a number of Federal Assistance Programs and we have no knowledge of any amount of expenditures, which may be disallowed by the grating agencies, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

16. COMMITMENTS AND CONTINGENCIES (CONTINUED):

During May, 2001 the Municipality entered in an agreement with HUD to repay the outstanding debt that was included in the general long-term debt account group. Payments amortizations were stated as follows:

<u>DATE</u>	<u>PAYMENT AMORTIZATION</u>
December 15, 2001	\$320,623
February 15, 2002	733,658
September 15 2002	733,658
February 15, 2003	733,658
September 15, 2003	733,658
February 15, 2004	733,658
September 15, 2004	733,658
February 15, 2005	733,658
September 15, 2005	1,141,246
Total Payments	<u>\$6,597,475</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

16. COMMITMENTS AND CONTINGENCIES(CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$4,465,537 in the general long-term debt account group for anticipated unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of estimated as probable liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

In addition, the Municipality is a defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. The final outcome of these claims cannot be determined by legal counsel with the information currently available. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2001**

17. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General, Special Revenue and Capital Project funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental funds, as follows:

Description	General	Special Revenue	Capital Projects
Beginning Fund Balances at July 1, 2000	(\$11,071,106)	\$4,752,015	\$8,684,201
Funds reported as General Fund instead of Special Revenue Fund	(151,474)	151,474	
Municipal License Taxes Receivable erroneously recorded	(354,839)		
Errors in due from other funds	(34,893)		
Errors in due to Governmental Agencies (PREPA)	(143,398)		
To reclassify General Fund debt to GLTD Account Group as per our analysis	1,141,246		
Accounts Receivable Other that not comply with the modified accrual accounting requirements	(1,980,136)		
Funds reported as General Fund instead of Special Revenue Fund	(10,335)	10,335	
To correct due from General Fund as per analysis		894,539	
Funds reported as Special Revenue instead of Capital Project Fund		(52,926)	52,926
To reclassify due from General Fund to Capital Project Fund		(4,133,662)	4,133,662
Due from General Fund Balance erroneously recorded		(536,420)	
To record Deferred Revenue as per our analysis		(797,862)	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ARECIBO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

17. BEGINNING FUND BALANCES RESTATEMENT (CONTINUED):

Description	General	Special Revenue	Capital Projects
To record Accounts Receivable from Federal Government as per our analysis		237,650	
Errors in Cash with Fiscal Agent balance			1,712,359
Beginning Fund Balances at July 1, 2000, as restated	<u>\$12,604,935</u>	<u>\$525,143</u>	<u>\$14,583,148</u>

18. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On July 6, 2001 the Municipality of Arecibo issued an special obligation bond in the amount of \$10,545,000. The interest rate of this debt is 12%. The bond will be repaid with operational funds. Repayment of the bond is scheduled for July 2002 through July 2026.