OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CABO ROJO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

GENERAL PURPOSE FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS WITH
ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133

MUNICIPALITY OF CABO ROJO

JUNE 30, 2001

TABLE OF CONTENTS

		Pages
I.	FINANCIAL SECTION:	
	Report of Independent Certified Public Accountants	1
	General Purpose Financial Statements	
	Combined Balance Sheet - All Governmental Fund Types and Account Groups	3
	Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	5
	Combined Statement of Revenues and Expenditures Budget and Actual (Budget- Statutory) General and Debt Service Fund	6
	Notes to the General Purpose Financial Statements	7
	Supplemental Information	
	Schedule of Expenditures of Federal Awards	29
	Notes to Schedule of Expenditures of Federal Awards	30
II.	REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	32
III.	REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A - 133	34
IV.	SCHEDULE OF FINDINGS AND QUESTIONED COSTS	37
V.	SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	47
VI.	CORRECTIVE ACTION PLAN	50

Rodríguez, Rivera & Toro LLP

Accountants and Management Consultants

Las Nereidas Condominium
Méndez Vigo St. - Second Floor
P.O. Box 1080
Mayagüez, Puerto Rico 00681-1080
Phone: (787) 834-3100 / Fax: (787) 831-2909
support@rrtllp.com
http://www.rrtllp.com

Report of Independent Certified Public Accountants

Mayor and Municipal Council
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Cabo Rojo, Puerto Rico, 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 third paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the provisions of the Office of Management and Budget Circular A-133 "Audits of States, Local Governments and Non-Profit Organizations". Those standards and the 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records we were unable to form an opinion regarding valuation of cash in the general fund; due from (to) other funds between general, special revenue and capital project funds; and some state and federal grants revenues and expenditures at special revenue fund. We were unable to satisfy ourselves by means of other auditing procedures.

As more fully described in Note D (12), the Municipality has not determined and recorded an estimate of the total municipal solid waste landfill postclosure care costs and the portion of the estimated total current costs of closure and postclosure care of other solid waste landfill, as required by generally accepted accounting principles. The effect of this departure on the general purpose financial statements is not reasonably determinable.

In our opinion, except for the effect of such adjustments, if any, as might have been determine to be necessary had the matters discussed in the third paragraph been susceptible to satisfactory tests; and for the effects of not determining the estimate of solid waste landfill postclosure care costs and the portion of the estimated total current costs of closure and postclosure care of other solid waste landfill as described in the fourth paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Cabo Rojo as of June 30, 2001, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 2001 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be used in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the Municipality of Cabo Rojo taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determine to be necessary had the matters discussed in the third paragraph been susceptible to satisfactory tests, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

1768877

143

Mayagüez, Puerto Rico
October 18, 2001

Rodríguez, Ríos & Toro LLP

Municipality of Cabo Rojo

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2001

	Governmental Funds				Account groups		
ASSETS AND OTHER DEBITS	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debts	Total (Memorandum only)
Cash and certificates of deposit (note D1)	$ 1,982,214	$ 297,344	$ -	$ 1,000,000	$ -	$ -	$ 3,279,559
Receivables (net where applicable of allowance for uncollectible)							
State governmental agencies (note D2)	870,386	30,000	-	-	-	-	900,386
Federal government	-	406,102	-	-	-	-	406,102
Due from other funds (note D3)	1,455,969	1,282,426	-	131,260	-	-	2,869,655
Restricted assets							
Cash (note D4)	-	480,583	2,748,884	2,936,209	-	-	6,165,676
Property, plant and equipment (note D5)	-	-	-	-	30,739,594		30,739,594
Amount available in debt service fund	-	-	-	-	-	2,748,884	2,748,884
Amount to be provided for retirement of general obligations bonds and operational loans	-	-	-	-	-	7,991,616	7,991,616
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	2,622,944	2,622,944
Total assets and other debits	$ 4,308,570	$ 2,496,456	$ 2,748,884	$ 4,067,469	$ 30,739,594	$ 13,363,444	$ 57,724,416

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2001

	Governmental Funds				Account groups		
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debts	Total (Memorandum only)
LIABILITIES							
Vouchers and accounts payable	$ 314,899	$ 618,767	$ -	$ -	$ -	$ -	$ 933,666
Due to governmental agencies (note D2)	823	-	-	-	-	-	823
Accrued liabilities	71,328	1,626	-	-	-	-	72,954
Deposits payable	9,001	-	-	-	-	-	9,001
Due to other funds (note D3)	1,413,686	29,999	425,970	1,000,000	-	-	2,869,655
Deferred revenues (note D6)	2,368,551	99,048	-	-	-	-	2,467,599
General obligation bonds and operational loans (note D7)	-	-	-	-	-	10,740,500	10,740,500
Other long-term debts (note D7)	-	-	-	-	-	2,622,944	2,622,944
Total liabilities	4,178,288	749,440	425,970	1,000,000	-	13,363,444	19,717,142
Contingencies (note E)							
FUND EQUITY AND OTHER CREDITS							
Investment in general fixed assets	-	-	-	-	30,739,594	-	30,739,594
Fund balance							
Reserved for debt service	-	-	2,322,914	-	-	-	2,322,914
Unreserved							
Designated for subsequent years expenditures	-	1,747,016	-	3,067,469	-	-	4,814,485
Undesignated	130,281	-	-	-	-	-	130,281
Total fund equity (deficit) and other credits	130,281	1,747,016	2,322,914	3,067,469	30,739,594	-	38,007,274
Total liabilities, fund equity (deficit) and other credits	$ 4,308,570	$ 2,496,456	$ 2,748,884	$ 4,067,469	$ 30,739,594	$ 13,363,444	$ 57,724,416

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year ended June 30, 2001

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Property taxes (note D8)	$ 2,817,623	$ -	$ 2,161,588	$ 165,735	$ 5,144,946
Municipal license taxes, licenses and permits (note D9)	3,605,957	-	-	-	3,605,957
Intergovernmental (note D10)	4,924,889	4,710,763	-	-	9,635,652
Rental income of properties	137,687	-	-	-	137,687
Fines and forfeitures	9,505	-	-	-	9,505
Interest	83,848	34,679	146,067	296,344	560,938
Sales of land plots	75,815	-	-	-	75,815
Other	23,368	-	-	-	23,368
Total revenues	11,678,692	4,745,442	2,307,655	462,079	19,193,867
Expenditures					
General government	3,359,386	425,499	-	-	3,784,885
Public safety	1,144,409	202,558	-	-	1,346,966
Highway and streets	2,562,197	-	-	-	2,562,197
Sanitation	2,516,415	19,099	-	-	2,535,514
Health	1,561,903	-	-	-	1,561,903
Welfare	124,960	507,826	-	-	632,786
Culture and recreation	770,079	12,193	-	-	782,272
Education	-	178,859	-	-	178,859
Capital projects	-	3,792,291	-	2,112,142	5,904,434
Other	323,209	104,501	-	-	427,710
Debts service					
Principal	-	-	1,267,581	-	1,267,581
Interest	-	-	712,579	-	712,579
Total expenditures	12,362,557	5,242,826	1,980,161	2,112,142	21,697,686
Excess (deficiency) of revenues over expenditures	(683,865)	(497,384)	327,494	(1,650,063)	(2,503,818)
Other financing sources (uses)					
Operating transfers in	1,070,943	-	421,091	-	1,492,033
Operating transfers out	421,091	130,665	579,044	361,234	1,492,033
Total other financing sources (uses)	649,852	(130,665)	(157,953)	(361,234)	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(34,013)	(628,049)	169,541	(2,011,297)	(2,503,818)
Fund balance at beginning of year	164,294	2,375,065	2,153,373	5,078,766	9,771,498
Fund balance at end of year	$ 130,281	$ 1,747,016	$ 2,322,914	$ 3,067,469	$ 7,267,680

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

COMBINED STATEMENT OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUND

Year ended June 30, 2001

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
Revenues						
Property taxes	$ 2,817,623	$ 2,817,623	$ -	$ 1,503,086	$ 2,161,588	$ 658,502
Municipal license taxes, licenses and permits	3,930,000	3,733,251	(196,749)	-	-	-
Intergovernmental	4,031,925	4,493,996	462,071	-	-	-
Rental income of properties	255,000	137,687	(117,313)	-	-	-
Fines and forfeitures	10,000	9,505	(495)	-	-	-
Interest	500,000	567,945	67,945	-	146,067	146,067
Sales of land plots	125,000	75,815	(49,185)	-	-	-
Other	466,528	449,338	(17,190)	-	-	-
Total revenues	12,136,076	12,285,160	149,084	1,503,086	2,307,655	804,569
Expenditures						
General government	3,151,952	3,131,813	20,139	-	-	-
Public safety	1,146,877	1,144,408	2,469	-	-	-
Highway and streets (note B)	2,431,314	2,566,499	(135,185)	-	-	-
Sanitation	2,628,619	2,487,192	141,427	-	-	-
Health	1,562,969	1,561,902	1,067	-	-	-
Welfare (note B)	124,952	124,960	(8)	-	-	-
Culture and recreation	771,158	770,080	1,078	-	-	-
Other	424,151	424,150	1	-	-	-
Debt service						
Principal	-	-	-	828,000	868,000	(40,000)
Interest	-	-	-	675,086	691,070	(15,984)
Total expenditures	12,241,992	12,211,004	30,988	1,503,086	1,559,070	(55,984)
Excess (deficiency) of revenues over expenditures	(105,916)	74,156	180,072	-	748,585	748,585
Other financing sources (uses)						
Operating transfers in	160,876	160,876	-	-	-	-
Operating transfers out (note B)	54,960	320,150	(265,190)	-	579,044	579,044
Total other financing sources (uses)	105,916	(159,274)	(265,190)	-	(579,044)	(579,044)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	$ -	$ (85,118)	$ (85,118)	$ -	$ 169,541	$ 169,541

The accompanying notes are an integral part of these general purpose financial statements.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cabo Rojo was founded in the year 1771. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen members of the Municipality Council. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

The financial statements of the Municipality have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. A summary of the Municipality's significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows:

1. *Financial Reporting entity*

The financial reporting entity included in this report consists of the general purpose financial statements of the Municipality of Cabo Rojo (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The basic criteria for deciding financial accountability are any one of the following:

a. Fiscal dependency of the potential component unit on the primary government, or

b. The primary government appoints a voting majority of the potential component unit's governing body and

   1) The primary government can impose its will on the potential component unit and/or

   2) A financial benefit/ burden exists between the primary government and the potential component unit.

Based on the above criteria there are no potential component units which should be included as part of the general purpose financial statements.

2. *Basis of presentation*

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds and account groups are reported by generic classification within the financial statements. Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality. The following fund types and account groups are used by:

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

a. *Governmental Funds*

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

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

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

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

Capital Project Funds. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

b. *Account Groups*

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

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

General Fixed Assets Account Group. This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group. Such assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets are capitalized. No depreciation is provided on General Fixed Assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for certain real estate assets including the usufructuary land lots which were valued at appraised or market value. Donated fixed assets are valued at their estimated fair market value on the date donated.

General Long-Term Debt Account Group. This group of accounts is established to account for all long-term debt of the Municipality. Because of their spending measurement focus, expenditures recognition for governmental fund types is limited to exclude amounts represented by non current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

3. *Basis of accounting*

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

a. *Governmental Funds*

These funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are measurable, available and collection is probable. Available is defined as

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues are considered earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized as the time of receipt. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred. Exceptions to this rule are: accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued and principal and interest on general long-term debt in the debt service fund, which are recorded as expenditures when due, except for principal and interest due in July 1 of the following fiscal year which is recorded when resources are available in the debt service funds.

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

4. *Budgetary data*

a. *Budget policy*

Budgets are prepared for General and Debt Service Funds following the requirements of the Autonomous Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These include: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums.

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budget amendments, which require a change in total appropriations of any department, are approved by the Municipal Council. Certain budget transfers within the limitations and restriction of the Autonomous Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budgets are prepared on a budgetary (statutory) basis of accounting, which is different from GAAP, and reflect encumbrance accounting as described below. In instances where budget revenues and appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final authorization amounts. Encumbrance appropriates lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. Formal budgetary integration is not employed for Special Revenue and Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

b. Encumbrances

On a GAAP basis, encumbrances outstanding at year end are reported in the general purpose financial statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary (statutory) basis, encumbrances are recorded as expenditures of current year.

5. *Receivables*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivables from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs

6. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure in the appropriate fund but the year-end inventory is not recorded in the combined balance sheet.

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. *Insurance coverage*

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the cities and municipalities of Puerto Rico. The coverage for the Municipality of Cabo Rojo consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Payment of the Municipality's insurance premiums are withheld quarterly from property tax advances and subsidies sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

8. *Compensated absences*

The Municipality's employees accumulate vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2 1/2 days per month of vacations and 1 1/2 days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick pay is liquidated to employees with 10 years or more service up to the maximum number of days.

The amount of vacation leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period. Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date.

The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded in the General Long-Term Debt Account Group since it is anticipated that none of the liability already accrued will be liquidated with expendable available resources. Vacations and sick leave, when paid, are recorded as expenditure in the General Fund.

9. *Interfund transactions*

Operating transfers are reported when incurred as operating transfers in by the recipient fund and as operating transfers out by the disbursing fund.

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Use of estimates

The preparation of the general purpose financial statement in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

11. Fund balance

a. Reservation of fund balance

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

Encumbrances:	Represent future expenditures under purchase order and other commitments, which generally will become liabilities in future periods as goods or services are received.
Debt Service:	Represents net assets available to finance future debt service payments.

b. Unreserved fund balance designations

Represent tentative plans or commitments of governmental resources.

12. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality have not yet adopted.

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

	Statement	To be Adopted in Fiscal year ended
34	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments	June 30, 2003
37	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 20 and 34.	June 30, 2003
38	Certain Financial Statement Note Disclosures	June 30, 2003

The impact of these statements on the Municipality's general purpose financial statement has not yet been determined.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As of June 30, 2001, the highway and streets and welfare expenditures categories and operating transfer-out caption in the general fund disclosed excess of expenditures over appropriations in the statements of revenues and expenditures budget and actual. The excess in the expenditures categories occurred primarily due to charges for utilities by the Puerto Rico Electric Power Authority and miscellaneous expenditures. The excess in the operating transfer-out category occurred primarily due to a transfer to other funds of funds to liquidate a long-term liability as informed by the Puerto Rico Electric Power Authority.

NOTE C - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET-STATUTORY BASIS TO GAAP

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types has been prepared in accordance with GAAP and the Combined Statement of Revenues and Expenditures Budget and Actual (Budget-Statutory) General and Debt Service Fund has been prepared on the budgetary basis, which is different from GAAP.

The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses in both statements:

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Budgetary - statutory basis)	$ (85,118)
Less: Expenditures recognized in GAAP basis but not in budgetary basis	(334,026)
Revenues accrued for budget (statutory) basis and not for GAAP	(131,594)
Add: Expenditures recognized for budget (statutory) basis and not for GAAP	81,532
Revenues accrued for GAAP but not for budgetary basis	435,193
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	$ (34,013)

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. *Cash and certificates of deposit*

The Municipality follows the practice of pooling cash of all funds except for certain state grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. The method of allocating interest earned on pooled investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund. Deposits were with the contracted depository bank in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged Puerto Rico and U.S. Governmental Securities held by P.R. Treasury Department in its Trust Division in the name of the depository bank.

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

2. *Due from state governmental agencies*

The Municipality's receivables from governmental agencies as of June 30, 2001 follows:

	Due from
Municipal Revenues Collection Center (CRIM)	$ 870,386

3. *Due from (to) other funds*

The amount presented as due from (to) other funds represent interfund transfers and/or borrowings between funds, and cash pertaining to other funds pooled in the general fund bank account.

4. *Restricted asset-cash*

Restricted cash balance in the special revenue and capital projects funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal government instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections which are restricted for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law (see related note F2). Interest earned by this sinking fund during the fiscal year 2000-2001 amounted to $146,067.

5. *Property, plant and equipment*

A summary of the General Fixed Assets Account group transactions follows:

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

	Equipment	Real Estate	Construction in Progress	Total
Balance at June 30, 2000	$ 6,075,612	$ 19,807,718	$ 689,038	$ 26,572,368
Additions	273,453	202,850	3,690,923	4,167,226
Retirements	-	-	-	-
Other adjustments	-	689,038	(689,038)	-
Balance at June 30, 2001	$ 6,349,065	$ 20,699,606	$ 3,690,923	$ 30,739,594

6. *Deferred Revenues*

The amounts presented as deferred revenues in the general fund include the following:

Municipal license taxes (note D9)	$ 1,933,358
Property Taxes (note D8)	435,193
	$ 2,368,551

7. *Long - term debts*

a General obligation bonds and operational loans

The Municipality's outstanding general obligation bonds, notes and operational loans at June 30, 2001 amounted to $10,740,500. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for the payment of principal and interest on the bonds. A sinking fund has been established for the bonds repayment at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of operational loans issued to finance operations of the general fund, if any, are made through retentions to intergovernmental revenues by the Municipal Revenue Collection Center (CRIM). A detail of the general obligation bonds, notes and operational loans as of June 30, 2001 follows:

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

7. Long - term debts

a. General obligation bonds and operational loans - Continued

Original Amount	Description	Maturity	Rate	Outstanding
$ 82,000	Public Improvement Bond	January 1, 2002	5.00%	$ 4,000
234,000	Public Improvement Bond	January 1, 2003	5.00%	30,000
141,000	Public Improvement Bond	January 1, 2007	5.00%	53,000
293,000	Public Improvement Bond	January 1, 2008	5.00%	123,000
300,000	Public Improvement Bond	January 1, 2011	6.13%	175,000
540,000	Public Improvement Bond	July 1, 2002	8.20%	65,000
770,000	Public Improvement Bond	July 1, 2006	8.50%	360,000
880,000	Public Improvement Bond	January 1, 2016	5.00%	662,000
454,000	Public Improvement Bond	January 1, 2017	5.00%	357,000
500,000	Operational Loan	July 1, 2006	8.50%	125,000
150,000	Lottery Loan	July 1, 2006	8.00%	37,500
1,145,000	Public Improvement Bond	July 1, 2008	4.70%	755,000
435,000	Public Improvement Bond	July 1, 2005	4.70%	215,000
105,000	Public Improvement Bond	July 1, 2010	4.70%	75,000
765,000	Public Improvement Bond	July 1, 2016	4.70%	665,000
1,735,000	Public Improvement Bond	July 1, 2016	4.70%	1,510,000
300,000	Public Improvement Bond	January 1, 2009	4.88%	234,000
500,000	Public Improvement Bond	January 1, 2010	Variable	460,000
1,205,000	General Obligation Bond	July 1, 2005	7.5%	765,000
830,000	General Obligation Bond	July 1, 2023	7.5%	790,000
1,310,000	General Obligation Bond	July 1, 2013	7.5%	1,145,000
2,040,000	General Obligation Bond	July 14, 2014	7.5%	1,875,000
405,000	General Obligation Bond	July 1, 2004	8.0%	260,000
$ 15,119,000				$10,740,500

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

b. *Other long-term debts*

Compensated absences (note A6)	$1,743,053
Municipal Revenue Collection Center (CRIM) (notes D8 and F)	533,418
Puerto Rico Department of Labor (Unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality)	260,557
Puerto Rico Electric Power Authority (payment plan)	74,790
Puerto Rico Treasury Department (Social Security debt payment plan)	7,126
Municipal landfill obligation (note D12)	4,000
	$2,622,944

The annual requirements to amortize general obligation bonds and operational loans outstanding as of June 30, 2001 are as follows:

	General, Obligation Bonds and Operational Loans	
June 30	Principal	Interest
2002	$ 959,500	$ 646,683
2003	943,500	603,058
2004	1,006,500	548,328
2005	973,500	486,189
2006	763,500	428,749
Thereafter	6,094,000	2,183,857
Totals	$ 10,740,500	$ 4,896,864

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

b. *Changes in general long-term debts*

	Balance at June 30, 2000	Net Additions	Net Retirements	Balance at June 30, 2001
General obligations bonds and operational loans	$ 11,641,000	$ -	$ 900,500	$ 10,740,500
Other long term debts	2,692,888	453,909	523,853	2,622,944
	$ 14,333,888	$ 453,909	$ 1,424,353	$ 13,363,444

8. *Property taxes*

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Commonwealth Property Tax Law. The tax levied on property is determined by the Commonwealth and the Municipal Government based on limits established by the Commonwealth Legislature. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return which must be filed with the CRIM by May 15 of each year.

Real property is assessed by the CRIM. The tax is general assessed on January 1st on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid in two equal installments, July 1st and January 1st. Property taxes are recorded as revenue by the Municipality in the year of receipt.

Property taxes are recorded as revenues by the Municipality in the year of receipt. The CRIM advance funds to the Municipality based on an estimate of the property taxes to be levied and which are collected in subsequent periods. The CRIM, collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advance and amounts assigned for the repayment of the bond obligations. As part of the requirements of the new

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities. This distribution includes advances of property tax and income derived from other subsidies from the state government. For the fiscal years 1998-99 and 1999-00 the Municipality has a net payable to the CRIM of $259,827 and $273,591 respectively, for a total debt balance of $533,418 which is recorded as other long term debt in the general long term debt accounts group. This debt was subsequently refinanced by the Municipality; see related note (F). For the fiscal year 2000-01 the CRIM performed a preliminary liquidation and determined that the Municipality has a net receivable of $870,386 of which $435,193 is recorded as deferred revenue since it is measurable but not available as required by U.S. generally accepted accounting principles.

9. *Municipal license taxes, licenses and permits*

Municipal license taxes are assessed annually by the Municipality to all organizations or entity's subject to the tax doing business in the Municipality's location based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1st and January 1st following April 15 filing due date), but the discount is not allowed.

Amounts collected in advance pertaining to next fiscal period are reported as deferred revenue in the General Fund.

10. *Intergovernmental revenues*

Intergovernmental revenues in the General Fund are comprised of subsidies received from the Commonwealth of Puerto Rico through the Municipal Revenue Collection Center and amounts received from state agencies as compensation in lieu of tax. Amount recorded in Special Revenue Fund consists of federal and state governmental grants.

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

11. *Retirement plan*

a. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employees' Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program. The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

The new program is a defined contribution plan, which consist of a savings account for each system participant. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

11. *Retirement plan*

a. *Plan description - Continued*

benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is $10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employee's contributions (9.275% of the employee's salary) will be used to kind the current plan.

Under the new program the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

b. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600, except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

11. Retirement plan

a. Plan description - continued

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Amount
2001	$ 456,730
2000	$ 423,957
1999	$ 384,774

12. *Municipal Solid Waste Landfill Closure and Post Closure Care Cost*

The Municipality discontinued the operation and ceased to accept solid waste in one of its two landfills. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure. The closure and postclosure care procedures are being assumed by the Municipality. As guidance for calculation of total closure costs, the Municipality is utilizing an estimate provided by the Puerto Rico Solid Waste Disposal Authority. As of June 30, 2001 the estimated closure care costs pending amounts to $4,000 and is recorded in the general long term debt account group. The Municipality is required to provide postclosure care after the closure is completed. Total postclosure care costs also has not been determined and accounted as required by generally accepted accounting principles as of June 30, 2001.

The Municipality also has a solid waste landfill, which is in operation as of June 30, 2001. The total estimate of the closure and postclosure care costs of the landfill and the portion of the estimated total current cost of closure and postclosure care has not been determined and recorded as required by generally accepted accounting principles as of June 30, 2001. The final effect of these matters cannot be properly determined.

NOTE E - CONTINGENCIES

1. *Federal and state grants*

Projects financed by federal and state grants are subject to audit in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

2. *Litigation*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary cause of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance. Other cases are at discovery stage on which the legal counsels have not determined an outcome and other cases will not be covered by insurance. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

3. *Municipal Solid Waste Landfill*

An inspection performed on August 21, 1996, by the U.S. Army Corps of Engineers, depicted that fill material is being discharged on the slopes and toes of the old sanitary Municipal landfill impacting the adjacent mangrove wetlands preserved in perpetuity as part of an issued Department of Army permit. As a consequence of this inspection the U.S. Army Corps of Engineers, enforced the provisions of the Clean Water Act of 1977 and requested the Municipality of Cabo Rojo to cease and desist from further activity in the old landfill. Penalties may be imposed along with injunctive relief, including restoration of the area. The final outcome of this matter cannot be properly determined.

NOTE F - SUBSEQUENT EVENTS

1. As determined by the Municipal Revenue Collection Center (CRIM) the actual amount of property tax revenues and income derived from other subsidies from the actual government of Puerto Rico is less than the advanced estimated revenues by $533,418 as of June 30, 2000. The Municipality refinanced this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000, which was created to permit the CRIM to recover the accumulated debt for this concept from the Municipalities of Puerto Rico. The refinancing was done through a special loan to be repaid from .48% of the net increase of subsidiary provided by the Central Government to the Municipality under the referred law. The financing agreement was authorized by the Municipal Council of Cabo Rojo on Resolution No. 2 of July 1, 2001.

2. On August 2001 the Municipality received from the Governmental Development Bank of Puerto Rico (GDB) $425,970 representing excess funds in the Municipality's debt service sinking fund maintained by GDB, in accordance with the provisions of Law No. 28 and Law No. 44 of 2001. The Municipality has recorded as other financing sources in the general fund this amount since it was received soon enough to finance current year expenditures.

SUPPLEMENTAL INFORMATION

Municipality of Cabo Rojo

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
U.S. Department of H.U.D.			
Major Program:			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	FD - 10 AB - 10 DC - 10 AF - 10	$ 2,320,975
Major Programs:			
Direct Programs:			
Section 8 Rental Voucher Program (Section 8 Cluster)	14.855	N/A	225,665
Section 8 Rental Certificates Program (Section 8 Cluster)	14.857	N/A	84,464
			2,631,105
U.S. Department of Health and Human Services			
Nonmajor program:			
Passed through the Puerto Rico Governor Office, (Oficina de Servicios Al Niño y Desarrollo Cultural - SENDEC):			
Child Care and Development Block Grant	93.575	N/A	88,461
Nonmajor program:			
Passed through the Puerto Rico Governor Office:			
Special Programs for the Aging - Title III Part B	93.044	N/AV	62,225
			150,687
U.S. Department of Justice			
Nonmajor program:			
Direct program:			
Public Safety Partnership and Community Policy Grants - COPS	16.710	N/A	75,267
Federal Emergency Management Agency			
Nonmajor program:			
Passed through the Puerto Rico Governor Office:			
(Governor's Authorized Representative-GAR) Public Assistance Grants	83.544	N/A	19,099
Total federal awards expenditures:			$ 2,876,156

The accompanying notes are an integral part of this schedule.

Municipality of Cabo Rojo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government and Nonprofit Organizations.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C - PASS-THROUGH GRANTOR'S NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

Municipality of Cabo Rojo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2001

NOTE D- RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS

Description	Special Revenue Fund
14.228	$ 2,320,975
14.855	225,665
14.857	84,464
93.575	88,461
93.044	62,225
16.710	75,267
83.544	19,099
Total federal awards expenditures:	$ 2,876,156
Total state funds awards expenditures and other nonfederal expenditures:	2,366,670
Total expenditures, general purpose financial statements	$ 5,242,826

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

Mayor and Municipal Council
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Cabo Rojo for the year ended June 30, 2001, and have issued our report thereon dated October 18, 2001 in which we have expressed a qualified opinion. Because of the inadequacy of accounting records we were unable to form an opinion regarding valuation of cash in the general fund; due from (to) other funds between general, special revenue and capital project funds; some state and federal grants revenues and expenditures at special revenue fund; and the Municipality has not determined and recorded an estimate for the total municipal solid waste landfill postclosure care costs, and the portion of the estimated total current costs of closure and postclosure care of other solid waste landfill, as required by generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Municipality of Cabo Rojo's general purpose financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as item 2001 II-1. We also noted certain immaterial instances of noncompliance that we have to report to management of Municipality of Cabo Rojo in a separate letter dated October 18, 2001.

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

Mayor and Municipal Council
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Compliance

We have audited the compliance of Municipality of Cabo Rojo 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. Municipality of Cabo Rojo's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Cabo Rojo's management. Our responsibility is to express an opinion on Municipality of Cabo Rojo's compliance based on our audit.

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

As described in item 2001 III-2 in the accompanying Schedule of Findings and Questioned Costs the Municipality of Cabo Rojo did not comply with requirements regarding Reporting and Period of availability of federal funds of compliance requirements applicable to Community Development Block Grant-State's Program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Cabo Rojo to comply with requirements applicable to that program.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Cabo Rojo'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 certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Cabo Rojo's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, as items 2001 II-1 and 2001 II-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2001 II-1 to be a material weakness. We also noted certain immaterial instances of noncompliance that we have reported to management of the Municipality of Cabo Rojo in a separate letter dated October 18, 2001.

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

1768948

October 18, 2001
Mayaguez, Puerto Rico

Rodriguez, Ruiz & Toro LLP

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Cabo Rojo 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. The results of our auditing procedures also disclosed other 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 2001 III-3 and 2001 III-4.

Internal Control Over Compliance

The management of the Municipality of Cabo Rojo 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 Cabo Rojo'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 Cabo Rojo's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2001 III-1 and 2001 III-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that of the reportable conditions described above we consider item 2001 III-2 to be a material weakness. We also noted certain immaterial instances of noncompliance that we have reported to management of the Municipality of Cabo Rojo in a separate letter dated October 18, 2001.

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

1768949

Rodriguez, Linen & Toro LLP

October 18, 2001
Mayaguez, Puerto Rico

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2001

I. *Summary of audit results*:

Part I - Financial Statements

1. Type of audit report:	☐ Unqualified opinion ☐ Adverse opinion	☒ Qualified opinion ☐ Disclaimer of opinion
2. Reportable conditions reported:	☒ Yes	☐ No
3. Reportable conditions reported as a material weakness	☒ Yes	☐ No
4. Material noncompliance disclosed	☒ Yes	☐ No

Part II - Federal Awards

1. Reportable conditions reported:	☒ Yes	☐ No
2. Reportable conditions reported as a material weakness	☒ Yes	☐ No
3. Type of report on compliance for major programs	☐ Unqualified opinion ☐ Adverse opinion	☒ Qualified opinion ☐ Disclaimer of opinion
4. Audit findings required to be reported under Section 510(a) of Circular A - 133	☒ Yes	☐ No
5. Major programs:	CFDA Number(s)	Name of Federal Program or Cluster
	14.228	Community Development Block Grant - State's Program
	14.857, 14.855	Section 8 Rental Certificates and Voucher Programs
6. Dollar threshold used to distinguish Type A and Type B programs	☒ $300,000 ☐ $30,000,000	☐ $3,000,000
7. Low-risk auditee	☐ Yes	☒ No

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2001

II. *Findings related to the financial statements reported in accordance with GAGAS:*

Area: Accounting records and reports:

Reference number 2001 II-1

Condition and criteria:

a. The Municipality has not properly implemented established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4A Monthly Report, which summarizes cash transactions of all funds of the Municipality. Our tests to the report disclosed:

   1. Transactions not posted or erroneously posted.

   2. Unreconciled cash balances with bank reconciliations including general fund current account, Child Care, COPS, Section 8, FEMA and legislative resolutions accounts.

   3. There is no reconciliation with accounting records including general ledger and register.

b. There was a transfer of funds between accounts at the special revenue fund on which there is no evidence of approval or resolution from Mayor or Municipal Council as supporting documentation. The source special revenue account disclosed no budgetary balance available to transfer on related obligations Register.

II. *Findings related to the financial statements reported in accordance with GAGAS: (continued)*

Area: Accounting records and reports: (continued)

Reference number 2001 II-1

Cause and effect: There is no proper reconciliation procedures to assure adequacy and completeness between different accounting records and reports including general ledger, obligation register, investment register, federal financial assistance program records, bank reconciliations, monthly and annual reports and other financial information maintained by state agencies including the Government Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM). As a result, we could not conclude about certain balances at the general purpose financial statements including cash in the general fund, due from (to) balances between general, special revenue and capital project fund and some state and federal grants at special revenue fund. This matter is considered a material weakness.

Recommendation: A complete and immediate review of controls and procedures over financial records and reports should be performed by the Municipality in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, at least, the following:

a. Review of 4A Monthly Report balances and reconciliation with cash subsidiary records (bank reconciliations and investment register).

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2001

II. *Findings related to the financial statements reported in accordance with GAGAS: (continued)*

Area: Accounting records and reports: (continued)

Reference number 2001 II-1

a. Reconciliation procedures between accounting records including general ledger and other accounting registers.

b. Reconciliation of centralized accounting records with federal financial assistance accounting records.

c. Reconciliation of accounts which information is maintained by state agencies including Governmental Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM).

II. *Findings related to the financial statements reported in accordance with GAGAS: (continued)*

Area: Property, plant and equipment:

Reference number 2001 II-2

Condition and criteria:	The Municipality has not established adequate control procedures to assure that public improvements recorded at the real estate inventory are being correctly accounted in the fixed assets inventory.
Cause and effect:	Our analysis of three items included in the inventory as of June 30, 2001 showed that they were capitalized using budgeted amounts instead of actual costs incurred. One of them was capitalized before the project was finished. It can cause the real estate inventory to be erroneous since differences between actual and budgeted costs. Also there can be a timing difference between the posting to the fixed assets inventory and the actual completion of the project. Since the effect was corrected in the general purpose financial statements, as of June 30, 2001, this finding is considered as a reportable condition.
Recommendation:	Property custodian should establish the procedure to capitalize any building or infrastructure construction using actual disbursement vouchers instead of the project budget or contract in order to assure posting of correct incurred amounts and in the correct accounting period.

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2001

III. Findings and questioned costs for federal awards:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2001 III-1	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	Cash Management	-	$ -	-	$ -	-	$ -	**Condition and criteria:** In our examination of controls and procedures used in the administration of federal funds, we noted that in several times cash balances exceeded the limit of $5,000 over the period of three working days as specified by the Circular 1075 of the U.S. Department of Treasury. **Cause and effect:** Failure to appropriately follow established internal controls and procedures. **Recommendation:** The Municipality should review established controls and procedures to minimize the time lapsing between receipts and use of federal funds to procure compliance with applicable laws, regulations, and federal requirements.	$ -

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2001

III. Findings and questioned costs for federal awards - Continued:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2001 III-2	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	Reporting Period of availability of federal funds	-	-	-	-	-	-	**Condition and criteria:** The Accounting System should prevent management of recording obligations or disbursements outside of the period of availability. The system may provide periodic reporting of unliquidated balances to appropriate level of management to properly follow up. Our tests to verify compliance with controls over financial records and report disclosed that revenues and expenditures reported on SBGP program for this fiscal period do not reconcile with records on centralized accounting system. The federal programs office could not provide a final expenditure or obligated balance for the fiscal period. **Cause and effect:** There are no proper internal accounting controls over financial records and reports. As a consequence there are no reliable and complete set of accounting records and reports and we can not conclude about the valuation, presentation and disclosure of the revenue and expenditure balance of SBGP Program. This is considered a material weakness.	$ -

III. Findings and questioned costs for federal awards: (continued)

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
									Recommendation: A complete and immediate review of internal controls and procedures over financial records and reports at the federal programs office is necessary to assure accuracy of financial data and compliance with program requirements.	
2001 III-3	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	Procurement, Suspension and Debarment	-	$ -	-	$ -	-	$ -	**Condition and criteria:** Municipalities are required to request from contractors a certification stating that Entity's Principals are not suspended or debarred from doing business with state or Federal Government or this requirement may be included as a contract's clause. During our examination on three of the Municipality's contracts over $100,000 we noted that such clauses were not included in contract nor a certification was obtained from contractors. **Cause and effect:** Lack of adequate internal controls and procedures related with the suspense and debarment requirement may cause incompliance with a federal requirement.	-

III. Findings and questioned costs for federal awards: (continued)

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
									Recommendation: Federal Programs Director must establish necessary internal control and procedures in coordination with the Municipal Secretary Office to procure that certifications are obtained form contractors or a contract clause is included on contracts to ensure compliance with federal requirements.	
2001 III-4	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	Reporting	-	$ -	-	$ -	-	$ -	**Condition and criteria:** The Performance and Evaluation Report (Closing Report) is due within 90 days after the close of its program year. During current year audit 2000-01 we noted the termination of two program year's funds but the required closing reports were not prepared or submitted to grantor. **Cause and effect:** Failure to properly perform established internal controls and procedures related with reporting may cause that required reports are not submitted to grantor when due.	-

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2001

III. Findings and questioned costs for federal awards: (continued)

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
									Recommendation: Federal Programs Director must ensure that required documentation and reports are prepared and submitted to grantors with complete data, accurate and on time to procure compliance with applicable laws, regulations, and federal requirements.	
	Total questioned costs									$ -

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2001

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year Ended June 30,	No.	Condition	Status
2000	2000 II-1	a. The Municipality has not properly implemented established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4A Monthly Report. b. The Municipality maintains an investment register to record transactions related to certificates of deposits. Information on investment register is not summarized by funds on a monthly basis and reconciled with other accounting records including general ledger and 4A Monthly Report. c. There were errors in the recording of transactions at the budget section of the budgetary liquidation report.	Finding cleared by grantor. See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2001

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year Ended June 30,	No.	Condition	Status
2000	2000 II-2	An adequate review of the fixed assets inventory listings has not been completely performed in order to ascertain that property is valuated, records are complete, all property actually disposed is properly recorded as retirements and subsidiary records and general ledger are reconciled. Also the construction in progress account was not revised and adjusted during the fiscal period.	Finding cleared by grantor. Management has made improvements in this area but still are certain deficiencies to be corrected. See current year finding 2001 II-2.

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2001

II. Findings and questioned costs for federal awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2000	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	2000 III-1	In our examination of controls and procedures used in the administration of federal funds, we noted that in several times cash balances exceeded the limit of $5,000 over the period of three working days as specified by the Circular 1075 of the U.S. Department of Treasury.	Finding cleared by grantor. See current year finding number 2001 III-1 in the accompanying Schedule of Findings and Questioned Costs.
2000	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	2000 III-2	Our tests to verify compliance with controls over financial records and reports disclosed that revenues and expenditures reported on SBGP program for fiscal period 1999-2000 do not reconcile with records on centralized accounting system.	Finding cleared by grantor. See current year finding number 2001 III-2 in the accompanying Schedule of Findings and Questioned Costs.
1999	U.S. Department of HUD: Section 8 Rental Certificates Program CFDA Number 14.857	1999 III-3	Our examination of twenty-eight beneficiary records disclosed several deficiencies.	Uncleared by grantor.
1999	U.S. Department of Federal Emergency Management Agency: Public Assistance Grant CFDA Number 83.544	1999 III-4	Our examination of controls and procedures related to the administration of the program disclosed several deficiencies.	Uncleared by grantor. Questioned Costs of $35,396 remains uncleared.

MUNICIPALITY OF CABO ROJO

CORRECTIVE ACTION PLAN

Audit Report S/A 2000-2001 Date: December 2001
Period Audited July 1, 2000 to June 30, 2001
Certify Correct: Hon. Santos E. Padilla Ferrer - Mayor
Date: Dec. 19, 2001

Employee Designated:
Name: Nereida Seda Vargas
Position: Internal Auditor
Telephone: 787 851-1025 Ext. 344

FINDING	CORRECTIVE ACTION	RESULTS
Findings related to Financial Statements reported in accordance with GAGAS: **Area: Accounting records and reports:**		
2001 II-1 A) The Municipality has not properly implement established internal controls and procedures to maintain an adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4(a) monthly report, which summarizes cash transactions of all funds of the Municipality. Our tests to the report disclosed: 1) Transactions not posted or erroneously posted. 2) Unreconciled balances with bank reconciliations including current, Child Care, COPS, Section 8, FEMA and legislative resolutions accounts. 3) There is no reconciliation with accounting records including general ledger and register.	The Municipality will perform an immediate and complete review of controls and procedures over financial records and reports in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, the following: a) Review of 4(a) monthly report balances and reconciliation with cash subsidiary records (bank reconciliations and investment register). b) Preparation of monthly summary of investment register transactions properly reconciled with other accounting records including 4(a) monthly report and general ledger. c) Reconciliation procedures between accounting records including general ledger and order and contract register. d) Reconciliation procedures between accounting records with federal financial assistance records. e) An employee will be encharged of the reconciliation of the general ledger, registers, and 4A Monthly Report.	In process.
B) There was a transfer of funds between accounts at the special revenue fund on which there is no evidence of approval or resolution from Mayor or Municipal Council as supporting documentation. The source special revenue account disclosed no budgetary balance available to transfer on related obligations Register.	The Municipality will establish and maintain a revision procedure of all transactions posted in the registers. We will designate an employee of the Finance Department who will be encharged of the monthly revision of the 4A Monthly Report, Obligations Registers and General Ledger.	In process.

FINDING	CORRECTIVE ACTION	RESULTS
2001 II-2-Property, plant and equipment: The Municipality has not established adequate control procedures to assure that public improvements recorded at the real estate inventory are being correctly accounted in the fixed assets inventory.	The Municipality will establish and implement necessary internal controls and procedures to assure a reliable, accurate and complete subsidiary record of all owned properties including the development of constructions, and also constructions in already progress. A report including all the disbursement vouchers of all ended projects will be send to the property custodian from the Finance Department to assure posting of correct incurred amounts and in the correct accounting period. At present the Municipality is updating the property register and will review the property register implemented by OCAM to determine if it is operated adequately.	In process.
Area: Federal Funds **Findings and questioned costs**		
2001-III-1-U.S. Departament of HUD - Cash Management In our examination of controls and procedures used in the administration of federal funds, we noticed that in several times cash balances exceeded the limit of $5,000 over the period of three working days as specified by the Circular 1075 of the U.S. Department of Treasury.	The Municipality will review established internal controls and procedures to minimize the time between receipts and use of Federal funds and comply with applicable laws and regulations.	In process.

FINDING	CORRECTIVE ACTION	RESULTS
2000-III-2 US Department of HUD-Reporting and Period of availability The Accounting System should prevent management of recording obligations or disbursements outside of the period of availability. Our test to verify compliance with controls over financial records and report disclosed that revenues and expenditures reported on SBGP program for this fiscal period do not reconcile with records on centralized accounting system. The Federal Programs office could not provide a final expenditure or obligated balance for the fiscal period.	The Federal Programs Office will perform a complete and immediate review of all the internal controls and procedures over the financial records and reports to assure accuracy of financial data and compliance with programs requirements.	In process
2001-III-3 US Department of HUD- Procurement, Suspension and Debarment Municipalities are required to request from contractors a certification stating that Entity's Principals are not suspended or debarred from doing business with state or Federal Government or this requirement may be included as a contract's clause. During our examination on three of the Municipality's contracts over $100,000 we noted that such clauses were not included in contract nor certification was obtained from contractors.	The Municipal Secretary Office has instructions to procure those certifications or include a clause on contracts to ensure compliance with Federal Law.	In process

FINDING	CORRECTIVE ACTION	RESULTS
2001-III-4 US Department of HUD- Reporting The Performance and Evaluation Report (Closing Report) is due within 90 days after the close of its program year. During current year audit 2000-01 we noted the termination of two program year's funds but the required closing reports were not prepared or sumitted to grantor.	The Closing Report for the program year 1993 was prepared and the related reporting for the program year 1995 is next to conclude. The Director of the Federal Program's Office has instructions related to ensure that required documentation and reports are prepared and submitted to grantors on time to comply with applicable laws.	In process

01 DEC 27 PM 2:25