OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CATAÑO
AUDITORIA 2000-01

30 DE JUNIO DE 2001

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Agustín Rodríguez Nieves

Members:
American Institute of Certified Public Accountants (AICPA)
Puerto Rico Board of Certified Public Accountants
Management Consulting Services Division
NACVA

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the Municipality of Cataño, 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 of Cataño' management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As described in Note 6, the Municipality of Cataño has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance or such all group amounting to $58,781,579.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Cataño as of June 30, 2001, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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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 our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements 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, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 14, 2001

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types				Account Groups		Total
Assets	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**	**General Fixed Asset**	**General Long Term Debt**	**Memorandum**
Cash; including certificates of deposits of $28,600,000 **(Note 2)**	$24,867,842	$ 561,171	$ -	$ 6,356,570	$ -	$ -	$ 31,785,583
Cash with fiscal agent **(Note 2)**	9,620		16,081,853	21,057,250			37,148,723
Accounts receivables:							
Interest	125,146						125,146
Due from other agencies **(Note 7)**	2,716,730	7,557					2,724,287
Due from other funds **(Note 8)**	315,577						315,577
Property and equipment **(Note 6)**					58,781,579		58,781,579
Amount available in debt service fund **(Note 2)**						16,081,853	16,081,853
Amount to be provided for retirement of general long-term debt						25,948,147	25,948,147
Amount to be provided through property tax collected for payment of related property tax advances **(Note 10)**						7,257,895	7,257,895
Amount to be provided for payment of accrued vacation and sick leave **(Note 1)**						2,779,349	2,779,349
Total assets	$28,034,915	$ 568,728	$16,081,853	$27,413,820	$ 58,781,579	$ 52,067,244	$182,948,139

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001

	Governmental Fund Types				Account Groups		Total
Liabilities and Fund Equity	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**	**General Fixed Asset**	**General Long Term Debt**	**Memorandum**
Liabilities							
Accounts payable and accrued liabilities	$ 4,475,295	$ 10,542	$ -	$ 1,312,849	$ -	$ -	$ 5,798,686
Due to other funds **(Note 8)**		315,577					315,577
Due to other agencies **(Note 9)**	1,321,140						1,321,140
Deferred revenues **(Note 4)**	8,184,908	242,609					8,427,517
Accrued vacations and sick leave **(Note 1)**						2,779,349	2,779,349
General long-term debts **(Note 10)**						42,030,000	42,030,000
Property tax advances **(Note 10)**						7,257,895	7,257,895
Total liabilities	13,981,343	568,728	-	1,312,849	-	52,067,244	67,930,164
Commitments and Contingencies (Notes 12, 13 and 14)							
Fund Equity							
Investment in general fixed assets					58,781,579		58,781,579
Fund balance							
Reserved for encumbrances	502,018						502,018
Reserved for debt service			16,081,853				16,081,853
Designated for capital additions				26,100,971			26,100,971
Undesignated equity	13,551,554						13,551,554
Total fund equity	14,053,572	-	16,081,853	26,100,971	58,781,579	-	115,017,975
Total liabilities and fund equity	$ 28,034,915	$ 568,728	$ 16,081,853	$ 27,413,820	$ 58,781,579	$ 52,067,244	$ 182,948,139

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY-ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes **(Note 3)**	$ 14,492,691	$ -	$ 2,342,741	$ -	$ 16,835,432
Municipal license taxes **(Note 4)**	9,187,568				9,187,568
Licenses and permits	503,844				503,844
Charges for service and rents	405,188				405,188
Inter-governmental revenues **(Note 5)**:					
Federal grants and contributions		1,566,892			1,566,892
State contributions	2,801,569			3,893,842	6,695,411
Interest, fines, and penalties	1,895,439		867,150		2,762,589
Other revenues	2,886,939				2,886,939
Total revenues	32,173,238	1,566,892	3,209,891	3,893,842	40,843,863
EXPENDITURES					
Municipal council	296,171				296,171
Offices:					
Mayor	5,080,112				5,080,112
Departments:					
Civil Defense	3,133,721				3,133,721
Culture	496,941				496,941
Education	2,903,287				2,903,287
Finance	7,314,163				7,314,163
Health	546,696				546,696
Public Works	3,190,954				3,190,954
Transportation and Sanitation	183,479				183,479
Recreation	908,235				908,235
Personnel	5,615,697				5,615,697
Capital outlays		682,186		7,350,085	8,032,271
Collection of property taxes applied to advances **(Note 15)**	11,341,087				11,341,087

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY-ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
General Government	$ 7,827,830	$ -	$ -	$ -	$ 7,827,830
Planning and budget	327,570				327,570
Secretary	230,911				230,911
Welfare	80,088	884,706			964,794
Debt services:					
Principal retirement **(Note 10)**			3,104,473		3,104,473
Interest payments			2,049,047		2,049,047
Total expenditures	49,476,942	1,566,892	5,153,520	7,350,085	63,547,439
Excess of (deficiency) of revenues over expenditures	(17,303,704)	-	(1,943,629)	(3,456,243)	(22,703,576)
OTHER FINANCING SOURCES (USES)					
Loan proceed				11,850,000	11,850,000
Advances of property taxes **(Note 3)**	11,341,087				11,341,087
Operating transfer-in	896,868		2,339,473		3,236,341
Operating transfer-out	(2,339,473)		(896,868)		(3,236,341)
Total other financing sources (uses)	9,898,482	-	1,442,605	11,850,000	23,191,087
Excess (deficiency) of revenues and other sources over expenditures and other uses	(7,405,222)	-	(501,024)	8,393,757	487,511
FUND BALANCE AT BEGINNING OF YEAR	21,458,794		16,582,877	17,707,214	55,748,885
FUND BALANCE AT END OF YEAR	$ 14,053,572	$ -	$ 16,081,853	$ 26,100,971	$ 56,236,396

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable Memorandum
REVENUES (Notes 1 and 15)						
Property taxes	$ 12,981,776	$14,492,691	$ 1,510,915	$ 3,971,327	$ 2,342,740	$ (1,628,587)
Municipal license taxes	9,076,446	9,187,568	111,122			
Licenses and permits	600,300	503,844	(96,456)			
Charges for service and rents	235,000	405,188	170,188			
Inter-governmental revenues:						
State contributions	2,672,180	2,801,569	129,389			
Interest, fines, and penalties	2,501,000	2,792,307	291,307		867,150	867,150
Other revenues	218,586	1,444,361	1,225,775			
Total revenues	28,285,288	31,627,528	3,342,240	3,971,327	3,209,890	(761,437)
EXPENDITURES (Notes 1 and 15)						
Departments:						
Municipal council	331,113	296,171	34,942			
Mayor	3,318,116	3,308,582	9,534			
Planning and Budget	344,539	327,570	16,969			
Civil Defense	3,408,632	3,133,721	274,911			
Finance	9,515,002	9,503,108	11,894			
Health	405,548	334,739	70,809			
Public Works, Transportation & Sanitation	3,729,018	3,468,531	260,487			
Recreation	1,114,710	1,087,837	26,873			
Personnel	5,989,999	5,615,697	374,302			
Secretary	237,464	230,911	6,553			
Education and Culture	3,721,147	3,612,186	108,961			
Debt service; principal and interest payment		-	-	3,971,327	3,710,914	260,413
Total expenditures	32,115,288	30,919,053	1,196,235	3,971,327	3,710,914	260,413
Excess of revenues over expenditures (expenditures over revenues)	(3,830,000)	708,475	4,538,475	-	(501,024)	(501,024)
OTHER FINANCING SOURCES						
Reprogrammed funds	3,830,000	3,830,000				
Total other financing funds	3,830,000	3,830,000	-	-	-	-
Excess of revenues over expenditures (expenditures over revenues)	$ -	$ 4,538,475	$ 4,538,475	$ -	$ (501,024)	$ (501,024)

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

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Cataño, Puerto Rico (Municipality) was incorporated in July 1, 1927. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

b. Summary of Significant Accounting Policies

The accounting policies of the Municipality are in accordance with the generally accepted accounting principles applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant policies:

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

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Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

a) Governmental Funds

i. General Funds

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

ii. Special Revenue Funds

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

iii. Debt Service Funds

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

iv. 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 (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

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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:

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

c) Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. General Fund appropriations for recurrent and ordinary functions of the Municipality.

ii. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on

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general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

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5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

9) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of

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oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

Selection of Governing Authority
Designation of Management
Ability to Influence Operations Significantly

Accountability for Fiscal Matters

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

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

Scope of Public Service
Special Financing Relationships

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

10) Use of Estimates

The preparation of 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 financial statements and the reported

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amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND SHORT-TERM INVESTMENTS

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in seven banks located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. The following is a summary of the total insured by collateral provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	Total	Insured by FDIC	Insured by Collateral in Treasury Department
Popular Bank	$ 712	$ 712	$ -
Santander Bank	3,938,697	100,000	3,838,697
Bilbao Vizcaya Bank	2,246,174	100,000	2,146,174
Western Bank	5,300,000	100,000	5,200,000
Doral Bank	9,800,000	100,000	9,700,000
Oriental Bank	6,500,000	100,000	6,400,000
First Bank	4,000,000	100,000	3,900,000
Total	$31,785,583	$600,712	$31,184,871

b. Cash with Fiscal Agents

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the

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Government Development Bank for debt service purposes. At June 30, 2001, the balance of cash retained by the Government Development Bank amounted to $16,081,853.

The bonds issued by the Municipality are administrated by the Government Development Bank with a method of escrow system. At June 30, 2001, the balance of cash retained by the Government Bank available for the acquisition of real property and federal program amounted to $21,066,870.

3. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. 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. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.08% for real property and 6.08% for personal property. The composition is as follows:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	<.20%>	<.20%>
Total	8.08%	6.08%

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

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The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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 Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of 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 Municipal Revenues Collection Center.

Complete exemption from personal property taxes up to an assessment of $50,000 is granted to merchants with an annual volume of net sales less than $150,000.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

4. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2001. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Cataño, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Cataño are as follows:

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Savings and loans associations	=	1.25%
Financing institution	=	1.50%
Other organizations	=	.50%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year $8,184,908, corresponding to the next fiscal year municipal license.

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

6. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in is future.

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The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	$54,400,770
Vehicles, equipment, and furniture	4,380,809
Total general fixed assets	$58,781,579

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	General Fund	Special Revenue Fund	Total
Authority of Electric Energy	$1,205,815	$ -	$1,205,815
HUD - SBGP Program		7,557	7,557
CRIM	1,510,915	-	1,510,915
Total	$2,716,730	$7,557	$2,724,287

8. DUE FROM (TO) OTHER FUNDS

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

The due from and due to other fund balances as of June 30, 2001, are as follows:

	Due from Other Fund	Due to Other Fund
General Fund		
Special Fund	$315,577	$ -
Special Revenue Fund		
General Fund	-	315,577
	$315,577	$315,577

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9. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	General Fund
Water and Sewer Authority	$ 5,339
Electric Power Authority	1,176,640
General Service Administration	210
Retirement System Administration	54,540
Puerto Rico Telephone Company	83,085
Department of Labor	1,326
Total	$1,321,140

10. GENERAL LONG-TERM DEBTS

The general long-term debts' transactions as of June 30, 2001 are as follows:

Balance July 1, 2000	$40,542,368
Additions for the year	11,850,000
Current repayments	(3,104,473)
Balance June 30, 2001	$49,287,895

General long-term debt obligations at June 30, 2001 are as follows:

Bonds

$14,520,000 series of 1995, payable in annual installments of $315,000 to $1,370,000 until 2014, interests from 6.5% to 7.706%.	$12,195,000
$18,825,000 of 1998, payable in annual installments of $260,000 to $1,635,000 until July 1, 2023, interests at 8%.	17,985,000
$18,825,000 of 1998, payable in annual installments of $260,000 to $1,635,000 until July 1, 2023, interests at 8%.	11,850,000
	42,030,000

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Other

Property tax advance - 2000	$ 1,175,961
Property tax advance - 1999	1,715,729
Property tax advance - 1998	4,366,205
	7,257,895
	$49,287,895

The annual requirements for the amortization of general long-terms at June 30, 2001, are as follows:

Year Ended June 30,	Amount
2002	$ 1,870,789
2003	1,960,789
2004	2,060,790
2005	2,170,790
2006	2,280,790
2007-2011	13,488,947
2012-2016	13,015,000
2017-2021	9,295,000
2022-2026	3,145,000
	$49,287,895

As described in Note 3, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

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11. RETIREMENT PLAN

a. Plan Description

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The Systems provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

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

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than $200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five

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(55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2001 was $639,176. The Municipality's payroll for employees covered by ESR was $6,891,382. The Municipality total payroll for all employees was $12,638,917.

c. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information on funding progress for the three last years is presented below:

	2001	2000	1999
Net assets available for benefits as a percentage of total pension benefit obligation	N/A	N/A	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll	N/A	N/A	N/A
Employer contributions (not actuarial determined) as a percentage of annual covered payroll	9%	9%	9%

N/A = Not available
Trend information prior to 1999 is not available

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For a ten-year trend information, refer to the separately issued financial statements of the Employee's Retirement System as of and for the year ended June 30, 2001.

12. CONTINGENCIES

a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.

b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

13. COMMITMENTS

The Municipality of Cataño had several outstanding or planned construction projects as of June 30, 2001. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to $828,939.

14. LEASES

Leasing arrangements with the Municipality as lessor are as follows:

a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.

b. Total income from leases during the year ended June 30, 2001 was approximately $302,906.

c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

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Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

15. BUDGETARY COMPARISONS

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles.

The principal difference between budgetary basis and generally accepted accounting principles, are as follows:

a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.

b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by generally accepted accounting principles.

c. Under generally accepted accounting principles, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

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

	Revenues	Expenditures
Generally accepted accounting principles basis	$32,173,238	$49,476,942
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	502,018

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	Revenues	Expenditures
Less prior year encumbrances recorded as expenditures on the GAAP basis	$ -	($ 2,329,978)
Plus advances of property taxes recorded as revenue on the budgetary basis	11,341,087	-
Plus transfer in/out	896,868	2,339,473
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	(11,341,087)	(11,341,087)
Revenues and expenditures not recorded as revenue or expense on the budgetary basis	(1,442,578)	(7,728,315)
Budgetary basis	$31,627,528	$30,919,053

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

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

16. MUNICIPAL SOLID WASTE LANDFILL CLOSURE

The Municipality discontinued the operation and ceased to accept solid waste in October 1988 in the landfill. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure. For those purpose the Municipality makes and agreement with a company to realize a plan to close the solid waste landfill. The total cost was $795,000, and was financed with federal and municipal funds.

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17. SUBSEQUENT EVENT

The New Governmental Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of the long-awaited statement on the financial reporting model project. GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," makes dramatic changes to the way state and local governments report their finances to the public. Issuance of the statement is the culmination of an extended due process period, including the issuance of a preliminary views document and exposure draft and conducting public hearings and focus groups.

Under the new reporting model, general purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

a. Management's discussion and analysis.
b. Government-wide financial statements.
c. Fund financial statements.
d. Notes to the financial statements.
e. RSI, including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

The Statement will first be effective for governments with annual revenues exceeding $100 million for fiscal years beginning after June 15, 2001; for those with revenues of $10 million to $100 million, years beginning after June 15, 2002; and for those with revenues of less than $10 million, years beginning after June 15, 2003.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Federal Grantor/Program Title	Federal CFDA Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Pass-through State - Commissioner Office of Municipal Affairs		
Community Development Block Grant-State Program		
SBGP	14.228	$ 682,186
Subtotal U.S. Department of HUD		682,186
U.S. Department of Health and Human Services		
Pass-through the Office of Administration for Children and Families		
Child Care and Development Block Grant	93.575	166,375
Community Service Block Grant	93.569	158,216
Subtotal U.S. Department of Health		324,591
U.S. Department of Education		
Event Start-State Educational Agencies	84.213	161,432
Child and Adult Care Food Program	84.999	29,859
Subtotal Department of Education		191,291
U.S. Department of Transportation		
Public Transportation for Nonurbanized Areas	20.509	267,485
Subtotal U.S. Department of Transportation		267,485

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Federal Grantor/Program Title	Federal CFDA Number	Federal Disbursements/ Expenditures
U.S. Department of Federal Emergency Management Agency (FEMA)		
Disaster Assistance	83.545	$ 101,297
Subtotal U.S. Department of FEMA		101,297
TOTAL		$1,566,850

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Ciales and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

The reconciliation of expenditures in the general purpose financial statements to the Schedule of Expenditures of Federal Awards is as follow:

Expenditures per general purpose financial statements:

Total federal expenditures per schedule	$1,566,850
Total non-federal expenditures accounted for the Special Revenue Fund of the General Purpose Financial Statements	42
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	$1,566,892

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Agustín Rodríguez Nieves

Members:
American Institute of Certified Public Accountants (AICPA)
Puerto Rico Board of Certified Public Accountants
Management Consulting Services Division NACVA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the Municipality of Cataño as of and for the year ended June 30, 2001, and have issued our report thereon dated December 14, 2001, which was qualified because insufficient audit evidence exists to support Municipality of Cataño's disclosures with respect to the general fixed assets balances. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

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Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Cataño's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Cataño' ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as item 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all matters reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Cataño, in a separate letter dated December 15, 2001.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 14, 2001

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

1. ACCOUNTING SYSTEM

Our evaluation of the Municipality accounting system revealed the following situations:

a. The accounting records were maintained on a cash basis during the year and at end of year the corresponding adjustments are made to convert the records to the modified accrual basis. The conversion to the modified accrual basis requires significant effort because they have to gather the information from different informal accounting records.

b. Accounts payable are not segregated from encumbrances as required by generally accepted accounting principles.

Recommendation

The Municipality should make an evaluation of its accounting system and implement the necessary improvements.

The Municipality should establish procedures to segregate accounts payable from encumbrances. Governmental generally accepted accounting principles require that purchase orders issued for which the goods or services have not been received be reported as an encumbrance, while goods or services received but not paid should be recorded as a liability.

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

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

Compliance

We have audited the compliance of Municipality of Cataño 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 Cataño'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 Cataño's management. Our responsibility is to express and opinion on Municipality of Cataño's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Cataño' 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 Cataño' compliance with those requirements.

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In our opinion, Municipality of Cataño 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 item 01-1.

Internal Control over Compliance

The management of Municipality of Cataño is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Cataño' 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 14, 2001

ORTIZ, RODRIGUEZ, RIVERA & CO. PUERTO RICO ORR & CO. Lic. 175 CONTADORES PUBLICOS AUTORIZADOS

The stamp 1776247 was affixed
to the original of this report.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

1. SUMMARY OF AUDIT RESULTS

a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Cataño.

b. There were reportable conditions on internal controls.

c. No instances of noncompliance material to the financial statements of Municipality of Cataño were disclosed during the audit.

d. There were no reportable conditions on internal controls over major programs.

e. The auditor's report on compliance for the major federal award programs for Municipality of Cataño express an unqualified opinion.

f. Audit finding relation to the major federal award programs for Municipality of Cataño is reported in number 3 of this schedule.

g. The programs tested as major programs included:

SBGP - CFDA No. 14.228

h. The threshold for distinguishing types A and B programs was $300,000.

i. Municipality of Cataño was determined to be a low-risk audit.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendation on page 32.

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Program	Finding/Noncompliance	Questioned Costs
SBGP CFDA No. 14.228	**Condition 01-1** The program maintains balance on the bank account in excess of the $5,000 permitted by OCAM. Cause The program does not have adequate control procedures for the cash management. Effect This condition causes that the program has cash balance in excess of the $5,000 permitted. Criteria Federal Regulations require that grantee will conform to the standards of timing and amounts as applicable to advances by federal agencies. Amount requested should be limited to the program's immediate needs. Recommendation The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement. The program should implement a cash management book, in which record the requisition and disbursements of all the year programs, in order to obtain a cash balance easily.	$ -0-

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Program	Finding/Noncompliance	Status
SBGP CFDA No. 14.228	**Condition 00-1**	
	The program does not comply with the cash management requirement.	Condition still prevails.

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Gobierno Municipal de Cataño
Oficina Programas Federales
P.O. Box 428
Cataño, Puerto Rico 00963

Tel. 788-0404
Exts. 2537 / 2507 / 2539
Fax: 788-2380

William Cora García
Director Ejecutivo

CORRECTIVE ACTION PLAN

December 14, 2001

Cognizant or Oversight Agency for Audit:

Municipality of Cataño respectfully submits the following corrective action plan for the year ended June 30, 2001

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2001

The findings from the June 30, 2001 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 01-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 01-1

Recommendation

The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement. The program should implement a cash management book, in which record the requisition and disbursements of all the year programs, in order to obtain a cash balance easily.

Action Taken

The Finance Department, in coordination with the Federal Program Department, will establish procedures, in order to minimize the time into receiving and disbursing the federal funds. In addition, the Federal Program Department will establish a cash management book, in order to correct the situation.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. William Cora at (787) 788-2270.

Sincerely yours,

William Cora
Federal Programs Director

(3-20-2001)

ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

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

for Fiscal Year Ending Dates On or After January 1, 2001

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

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

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

1. Fiscal period ending date for this submission
Month 06 / Day 30 / Year 2001 — Fiscal Period End Dates Must Be On or After January 1, 2001

2. Type of Circular A-133 audit
1 [X] Single audit 2 [ ] Program-specific audit

3. Audit period covered
1 [X] Annual 2 [ ] Biennial 3 [ ] Other – Months

FEDERAL GOVERNMENT USE ONLY

4. Date received by Federal clearinghouse

5. Employer Identification Number (EIN)
a. Auditee EIN 6 6 0 4 3 3 5 4 0

b. Are multiple EINs covered in this report? 1 [ ] Yes 2 [X] No
If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)

6. AUDITEE INFORMATION

a. Auditee name
Municipality Of Cataño

b. Auditee address *(Number and street)*
P.O. Box 428

City
Cataño

State
Puerto Rico ZIP + 4 Code 0 0 9 6 3 –

c. Auditee contact
Name
Juan Santos

Title
Finance Director

d. Auditee contact telephone
(787) 788 – 1033

e. Auditee contact FAX *(Optional)*
( ) –

f. Auditee contact E-mail *(Optional)*

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

Signature of certifying official

Date
Month Day Year
02 / 04 / 02

Printed Name/Title of certifying official
Juan Santos, Finance Director

7. AUDITOR INFORMATION *(To be completed by auditor)*

a. Auditor name
Ortiz, Rodriguez, Rivera & Co.

b. Auditor address *(Number and street)*
Suite 152 P.O. Box 70250

City
San Juan

State
Puerto Rico ZIP + 4 Code 0 0 9 3 6 – 7 2 5 0

c. Auditor contact
Name
CPA Marco A. Rivera

Title
Partner

d. Auditor contact telephone
(787) 756 – 8524

e. Auditor contact FAX *(Optional)*
(787) 274 – 0562

f. Auditor contact E-mail *(Optional)*

RECIBIDO UNIDAD DE CUENTAS 02 MAR -1 AM 10:29 OFIC. DEL COMISIONADO DE ASUNTOS MUNICIPALES

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

Signature of auditor
Ortiz, Rodriguez, Rivera & Co

Date
Month Day Year
1 / 30 / 02

EIN: 6 6 0 4 3 3 5 4 0

PART I GENERAL INFORMATION – Continued

8. Did the auditee expend more than $25,000,000 in Federal awards during the fiscal year? *(Mark (X) one box)*
   1 ☐ Yes – **Identify Cognizant Agency in Part I, Item 9** 2 ☒ No – ***SKIP to Part II, Item 1***

9. Indicate which **Federal** awarding agency provided the predominant amount of direct funding in **fiscal year 2000.** *(Mark (X) one box) However, if cognizance has been reassigned, see instructions.*

02 ☐ Agency for International Development	81 ☐ Energy	14 ☐ Housing and Urban Development	47 ☐ National Science Foundation
10 ☐ Agriculture	66 ☐ Environmental Protection Agency	15 ☐ Interior	20 ☐ Transportation
11 ☐ Commerce	83 ☐ Federal Emergency Management Agency	16 ☐ Justice	☐ Other – *Specify:*
12 ☐ Defense	93 ☐ Health and Human Services	17 ☐ Labor	
84 ☐ Education			

PART II FINANCIAL STATEMENTS *(To be completed by auditor)*

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

PART III FEDERAL PROGRAMS *(To be completed by auditor)*

1. Type of audit eport on major program compliance
   1 ☒ Unqualified opinion 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than $300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 ☐ Yes 2 ☒ No
3. What is the dollar threshold to distinguish Type A and Type B programs? (§___ .520(b)) $ 300,000
4. Did the auditee qualify as a low-risk auditee? (§___ .530) 1 ☒ Yes 2 ☐ No
5. Is a reportable condition disclosed for any major program? (§ ___ .510(a)(1)) 1 ☒ Yes 2 ☐ No – *SKIP to Item 7*
6. Is any reportable condition reported as a material weakness? (§ ___ .510(a)(1)) 1 ☐ Yes 2 ☒ No
7. Are any known questioned costs reported? (§ ___ .510(a)(3) or (4)) 1 ☐ Yes 2 ☒ No
8. Was a Summary Schedule of Prior Audit Findings prepared? (§___.315(b)) 1 ☒ Yes 2 ☐ No
9. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. *(Mark (X) all that apply or None)*

02 ☐ Agency for International Development	83 ☐ Federal Emergency Management Agency	43 ☐ National Aeronautics and Space Administration	96 ☐ Social Security Administration
10 ☐ Agriculture	39 ☐ General Services Administration	89 ☐ National Archives and Records Administration	19 ☐ State
23 ☐ Appalachian Regional Commission	93 ☐ Health and Human Services	05 ☐ National Endowment for the Arts	20 ☐ Transportation
11 ☐ Commerce	14 ☒ Housing and Urban Development	06 ☐ National Endowment for the Humanities	21 ☐ Treasury
94 ☐ Corporation for National and Community Service	03 ☐ Institute for Museum Services	47 ☐ National Science Foundation	82 ☐ United States Information Agency
12 ☐ Defense	15 ☐ Interior	07 ☐ Office of National Drug Control Policy	64 ☐ Veterans Affairs
84 ☐ Education	16 ☐ Justice	59 ☐ Small Business Administration	00 ☐ **None**
81 ☐ Energy	17 ☐ Labor		☐ Other – *Specify:*
66 ☐ Environmental Protection Agency	09 ☐ Legal Services Corp		

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives . . . . . ☒
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9) . . . . . ☐

Count total number of boxes marked above and submit this number of reporting packages 2

EIN: 6 6 0 4 3 3 5 4

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS – Continued

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR | **11. AUDIT FINDINGS**

CFDA Number (a) Federal Agency Prefix [1]	Extension [2]	Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s)[3] (a)	Audit find referenc number(s (b)
14	.228	1 ☐ Yes 2 ☒ No	Community Development Block Grant State Program - SBGP	$ 682,186 .00	1 ☐ Yes 2 ☒ No	1 ☒ Yes 2 ☐ No	C	01-1
93	.575	1 ☐ Yes 2 ☒ No	Child Care and Development Grant	$ 166,375 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
93	.569	1 ☐ Yes 2 ☒ No	Community Service Block Grant	$ 158,216 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
84	.213	1 ☐ Yes 2 ☒ No	Event Start - State Educational Agencies	$ 161,432 .00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No	O	N/A
84	.999	1 ☐ Yes 2 ☒ No	Child and Adult Care Food Program	$ 29,859 .00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No	O	N/A
20	.509	1 ☐ Yes 2 ☒ No	Public Transportation for Nonurbanized Areas	$ 267,485 .00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No	O	N/A
83	.545	1 ☐ Yes 2 ☒ No	Disaster Assistance	$ 101,297 .00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No	O	N/A
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
TOTAL FEDERAL AWARDS EXPENDED →				$ 1,566,850 .00	*IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCC THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FOR AND SEE INSTRUCTIONS*			

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

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

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

A. Activities allowed or unallowed
B. Allowable costs/cost principles
C. Cash management
D. Davis – Bacon Act
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking
H. Period of availability of Federal funds
I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition and relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None
P. Other

[4] N/A for NONE

EIN: 6 6 0 4 3 3 5 4 0

PART I **Item 5 Continuation Sheet**

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

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

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