

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE HATILLO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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**MUNICIPALITY OF HATILLO, PUERTO RICO
SINGLE AUDIT
YEAR ENDED JUNE 30, 2001
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

**GONZÁLEZ TORRES & CO.
Certified Public Accountants & Consultants**

MUNICIPALITY OF HATILLO, PUERTO RICO
GENERAL PURPOSE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

JUNE 30, 2001

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Member of:

Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

To the Mayor and Municipal Assembly
Municipality of Hatillo, Puerto Rico
Hatillo, Puerto Rico

I have audited the accompanying general purpose financial statements of the Municipality of Hatillo, as of June 30, 2001 and for the year then ended, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Municipality of Hatillo's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

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

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

San Juan, Puerto Rico
December 10, 2001

The stamp number 75589 was
affixed to the original copy
of this report.



J. A. González Torres
CPA JOSÉ A. GONZÁLEZ TORRES
LIC. 3728
Expires December 1, 2004

**MUNICIPALITY OF HATILLO
COMBINED BALANCE SHEET
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	ACCOUNT GROUPS		MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE FUND	GEN. FIXED ASSETS	GEN. LONG TERM DEBT	2001
ASSETS								
Cash (Note 2)	\$3,235,523	\$852,133	\$37,870	\$3,589,811	\$183,768			\$7,899,105
Cash with Fiscal Agent (Note 2)			5,182,609		1,656,594			6,839,203
Receivables:								
Federal grants (Note 1)		373,234	831,471					1,204,705
Due from Debt Service	2,416,622							2,416,622
Due from Municipal Revenue Collection Center (Note 15)	763,323							763,323
Others	189,017	2,594	106,150					297,761
Interests			26,458		19,509			45,967
Municipal Taxes	22,941							22,941
Land, Property and Equipment:								
Land					1,215,200			1,215,200
Buildings, net of depreciation - \$70,420 (Notes 2, and 11)					866,828			866,828
General Fixed Assets (Note 6)						15,535,761		15,535,761
Amount to be provided for:								
Due to the Municipal Revenue Collection Center (Note 15)							364,634	364,634
Retirement of general long-term debt (Note 7)							7,560,276	7,560,276
Accrued compensated absences (Note 1)							519,788	519,788
Health Reform (Note 13)							1,491,636	1,491,636
TOTAL ASSETS	\$6,627,426	\$1,227,961	\$6,184,558	\$3,589,811	\$3,941,899	\$15,535,761	\$9,936,334	\$47,043,750
LIABILITIES AND FUND EQUITY								
Liabilities								
Accounts Payable and accrued liabilities	\$355,851	\$45,055	\$202,507					\$603,413
Due to Federal Agency		43,202						43,202
Deferred Revenues	1,945,512	327,796	816,124					3,089,432
Due to Other Government Units and Other Funds	205,400	85,494		2,416,622				2,707,516
Accounts Payable- Department of Health							1,491,636	1,491,636
Accrued employee benefits (Note 1)							519,788	519,788
Due to the Municipal Revenue Collection Center - CRIM (Note 15)							364,634	364,634
Matured bonds and notes payable (Note 7)				440,000	3,626,724		7,560,276	11,627,000
Interest payable on general obligations (Note 7)				648,633				648,633
TOTAL LIABILITIES	2,506,763	501,547	1,018,631	3,505,255	3,626,724	-	9,936,334	21,095,254
Invest. In Gen. Fixed Assets						15,535,761		15,535,761
FUND BALANCES AND RETAINED EARNINGS								
Fund Balance (see Note 1), undesignated for general fund	4,120,663	726,414	5,165,927	84,556				10,097,560
Retained earnings					315,175			315,175
TOTAL FUND EQUITY AND RETAINED EARNINGS	4,120,663	726,414	5,165,927	84,556	315,175	15,535,761	-	25,948,496
TOTAL LIAB. & FUND EQUITY AND RETAINED EARNINGS	\$6,627,426	\$1,227,961	\$6,184,558	\$3,589,811	\$3,941,899	\$15,535,761	\$9,936,334	\$47,043,750

See notes to general purpose financial statements.

MUNICIPALITY OF HATILLO
COMBINED STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES / ALL GOVERNMENT FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund types				Proprietary Fund Type	Totals Memorandum Only
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE FUND	2001
REVENUES:						
Property Taxes (Note 3)	\$4,503,919	\$ -	\$ -	\$1,065,555	\$ -	\$5,569,474
Local Municipal Taxes (Note 4)	2,893,494					2,893,494
Intergovernmental Revenues (Note 5)	1,222,294					1,222,294
Rent of Properties	131,653				347,198	478,851
Other Revenues	1,015,707					1,015,707
Interest	130,119			172,164	139,373	441,656
Federal Funds		472,137	1,003,986			1,476,123
Other Income		85	283,182			283,267
Municipal Contribution		352,651				352,651
TOTAL REVENUES	9,897,186	824,873	1,287,168	1,237,719	486,571	13,733,517
EXPENDITURES:						
Municipal Assembly	223,334					223,334
Administration	3,523,701		104,540			3,628,241
Public Works	4,207,495					4,207,495
Health, Sanitation & Welfare	480,863					480,863
Public Safety and Security	294,120					294,120
Sports & Recreation	610,487					610,487
Capital Outlays (Note 1)			1,656,260			1,656,260
Expenditures		524,067	739,470		267,791	1,531,328
Depreciation					17,605	17,605
Principal Retirement				337,635		337,635
Interests				378,133	179,636	557,769
TOTAL EXPENDITURES	9,340,000	524,067	2,500,270	715,768	465,032	13,545,137

(Continued)
MUNICIPALITY OF HATILLO
COMBINED STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES / ALL GOVERNMENT FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund types				Proprietary Fund Type	Totals Memorandum Only
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE FUND	2001
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$557,186	\$300,806	(\$1,213,102)	\$521,951	\$21,539	\$188,380
OTHER FINANCING SOURCES/USES						
OPERATING TRANSFER IN/OUT:						
Transfer from (to) General Fund		(80,756)	(278,269)	(2,595,370)	(306,980)	(3,261,375)
Transfer from Debt Service Fund	2,595,370				239,636	2,835,006
Transfer to Fixed Assets Account Group		(25,028)				(25,028)
Loans proceeds			2,265,000			2,265,000
Transfer (to) from Enterprise Fund	306,939			(239,636)		67,303
Transfer from Capital Project Fund	278,269					278,269
Transfer from Special Revenue Fund	80,756					80,756
Transfer to Debt Account Group				(272,060)		(272,060)
TOTAL OTHER FINANCING SOURCES (USES)	3,261,334	(105,784)	1,986,731	(3,107,066)	(67,344)	1,967,871
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	3,818,520	195,022	773,629	(2,585,115)	(45,805)	2,156,251
FUND BALANCE JUNE 30, 2000	302,143	531,392	4,392,298	2,669,671	360,980	8,256,484
FUND BALANCE JUNE 30, 2001	\$4,120,663	\$726,414	\$5,165,927	\$84,556	\$315,175	\$10,412,735

See notes to general purpose financial statements.

**MUNICIPALITY OF HATILLO, PUERTO RICO
COMBINED STATEMENTS OF REVENUES, EXPENDITURES
BUDGET-GAAP BASIS AND ACTUAL, GENERAL AND DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (UNFAV)	Budget	Actual	Variance Favorable (UNFAV)
REVENUES:						
Property Taxes (Note 3)	\$3,740,596	\$4,503,919	\$763,323	\$1,125,132	\$1,065,555	(\$59,577)
Local Taxes	2,250,000	2,893,494	643,494			-
Intergovernmental Revenues	1,222,294	1,222,294	-			-
Rent of Properties	150,000	131,653	(18,347)			-
Other Revenues	1,104,455	1,015,707	(88,748)			-
Interest	450,000	130,119	(319,881)		172,164	172,164
TOTAL REVENUES	8,917,345	9,897,186	979,841	1,125,132	1,237,719	112,587
EXPENDITURES:						
Municipal Assembly	254,379	223,334	31,045			-
Administration	3,250,560	3,523,701	(273,141)			-
Public Works	3,995,825	4,207,495	(211,670)			-
Health, Sanitation and Welfare	449,600	480,863	(31,263)			-
Public Safety	373,267	294,120	79,147			-
Sports and Recreation	593,714	610,487	(16,773)			-
Debt Service:						-
Principal and Interests				1,125,132	715,768	409,364
TOTAL EXPENDITURES	8,917,345	9,340,000	(422,655)	1,125,132	715,768	409,364
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$557,186	\$557,186	\$ -	\$521,951	\$521,951

See notes to general purpose financial statements.

MUNICIPALITY OF HATILLO, PUERTO RICO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2001

Cash Flows from Operating Activities:	
Net loss for the period	(\$ 45,805)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	17,605
Interests receivable	<u>(9,480)</u>
Cash provided by operating activities	<u>(37,680)</u>
 Cash Flows used by Financing Activities:	
Payments of debt	<u>(60,000)</u>
Cash used by financing activities	<u>(60,000)</u>
 Cash used by Investing Activities:	
Additions of Building Land and Construction in Process	<u>(146,985)</u>
Cash used by investing activities	<u>(146,985)</u>
Net decrease in Cash and Cash Equivalents	<u>(244,665)</u>
Cash and Cash Equivalents at Beginning of Period	<u>\$2,085,027</u>
Cash and Cash Equivalents at End of Period, Restricted	<u>\$1,840,362</u>
 Supplementary information:	
Interests paid during the year	<u>\$ 179,636</u>

See notes to general purpose financial statements.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Hatillo, Puerto Rico (the Municipality) was founded in June 30, 1823. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the General Elections of Puerto Rico. The legislative body (Municipal Assembly) consists of 14 members also elected in the general elections for a four year period.

The Municipality provides services such as: health, public works, human services, sanitation, welfare, education, public safety, housing and urban development, culture and recreation and other general and administrative services.

The Municipality's accounting policies conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

(A) REPORTING ENTITY

The Municipality's financial statements include the operations of all departments and areas for which the Municipality exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

(B) 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(C) BASIS OF PRESENTATION- FUND ACCOUNTING

The accounts of the Municipality are organized on the basis of funds or accounts groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Municipality.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) GOVERNMENTAL FUND TYPES

Government funds are those through which most governmental functions of the Municipality are financed. The acquisition, use and balances of the Municipality's 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 operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund- Special revenue is used to account for the proceeds of specific revenue sources that are legally restricted to specific 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 Fund- The capital project fund is used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, except projects to be financed through the special revenue funds.

Long Term Liabilities expected to be financed from governmental funds are accounted for in the general long - term debt account group, not in the governmental fund.

The two account groups are not "Funds". They are concerned only with the measurement of financial position. They are not involved with measurement of result of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non - current liabilities. Since they do not affect net current assets, such as long - term amounts are not recognized as governmental fund type expenditures of fund liabilities. They are instead reported as liabilities in the general long - term debt account group.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) PROPRIETARY FUND

The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, are financed or recovered primarily through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise fund of the Municipality includes land and buildings known as "Punta Maracayo Camping" located in "Barrio Carrizales" in Hatillo, Puerto Rico. The operations began by June 27, 1996.

(F) ACCOUNT GROUPS

Account groups are not funds and 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:

(G) GENERAL FIXED ASSETS AND GENERAL LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the Fixed Assets and Long-Term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "Financial Flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (Net Current Assets) is considered a measure of "Available Spendable Resources." Governmental fund operating statements present increases (Revenues and Other Financing Sources) and decreases (Expenditures and Other Financing Uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "Available Spendable Resources" during a period.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) GENERAL FIXED ASSETS AND GENERAL LONG-TERM LIABILITIES (CONTINUED)

Fixed assets used in governmental fund type operations (General Fixed Assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (Infrastructure) general fixed assets consisting of certain improvements other than Building, Including Roads, Bridges, Curbs and Gutters, Streets and Sidewalks, Drainage Systems and Lighting Systems, have been capitalized. Such assets are normally immovable and of value only to the city. Depreciation has not been provided on general fixed assets.

The general fixed assets acquired are recorded as expenditures in the government fund and will be capitalized at cost in the general fixed assets account group. Donated general fixed assets will be recorded at their estimated fair market value at the time they were received by the Municipality. The information to account for these general fixed assets is not available.

Fixed assets included in the proprietary fund are carried at cost. Major renewals and betterments will be capitalized: replacement, maintenance and repairs which do not improve or extend the life of the respective assets will be charged to operations. Depreciation will be provided on fixed assets for the enterprise fund.

The general long-term debt is used to account for the long term debt as bonds, notes payable, accrued compensated absences, debts to other government units for long term among other payables for long term basis.

(H) BASIS OF ACCOUNTING

The Municipality uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting is followed by the governmental funds. The modified accrual basis of accounting, recognizes revenues when both "measurable and available". Measurable means that amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for interest on long - term debt obligations, which is recorded when due, and compensated absences, which are recorded in the general long - term debt. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) BASIS OF ACCOUNTING (CONTINUED)

purpose or project before any amounts will be paid to the Municipality; therefore revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only when they fail to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues are recorded as revenues upon receipt.

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred. Most of the fund transactions are made through the Government Development Bank.

(I) ENCUMBRANCES

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase order, contracts and other commitments for expenditures of funds are recorded to reserve that portion of the applicable appropriation for the future obligation. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. As of June 30, 2001, the purchases orders and commitments were recorded as accounts payable in the accompanying balance sheet.

(J) BUDGETARY DATA

The Municipality follows these procedures, which are in accordance with the Municipal law, in establishing the budgetary data reflected in the general purpose financial statements.

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

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) BUDGETARY DATA (CONTINUED)

- (3) Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make the necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting except for encumbrances as described below.

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

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis. The budget prepared for each of the special revenue funds is based in a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue fund.

Accounting Basis per the combined Statement of Revenues, Expenditures and changes in Fund Balances	\$557,186
Adjustments:	
Funds received over budget	979,841
Funds spent over budgeted expenditures	<u>-422,655</u>
Budgetary Basis per the Combined Statement of Revenues and Expenditures - Budget and Actual	<u>\$ -</u>

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) INVENTORIES

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

(L) INTER-FUND TRANSACTIONS

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal funds.

(M) COMPENSATED ABSENCES

The vacation policy of the Municipality provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Sick-leave accumulates to all employees at a rate of 1.5 days per month up to a maximum of 90 days. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave to the maximum allowed.

Employees' maximum allowed accumulated vacations and sick leave together with the employers share of payroll taxes are accounted for in the General Long-Term Debt Account Group.

(N) INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

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

(O) FEDERAL AND STATE GRANT REVENUE

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

(P) TOTAL COLUMNS

Total columns on the combined statements-overview are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or, results of operations, in conformity with generally accepted accounting principles or changes in financial principles. Such data are not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

(2) **CASH**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and short-term investments individually by fund in the general purpose financial statements. Interests earned on certificates of deposit and other short-term investments are recognized as a revenue of the general fund, except for interest earned in the special revenue fund. The Municipality's deposits with commercial financial institutions, which included \$3,200,000 in interest deposits at June 30, 2001 were entirely covered by Federal Depository Insurance or collateral held by the Treasury Department of the Commonwealth of Puerto Rico, which includes \$100,000 in the Enterprise Fund. Interest received from these deposits were between 4.75% and 6.45%. The fair value of certificates of deposits is the same of the principal amount invested, according management consideration. Cash with fiscal agent is detailed as follows:

Enterprise Fund: Additional cash with a fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is restricted for the expenditures associated with "Punta Maracayo Camping" and the acquisition of a land lot contiguous to Punta Maracayo for the construction of Paseo Tablado and further development of recreational facilities.

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

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(3) PROPERTY TAXES

The "Municipal Revenue Collection Center" (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding taxes. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at estimated current values in 1957 and of personal property are based at the current value at the date of the assessment. Real property taxes are billed by the "CRIM" and due in the two equal installments in July and January following the assessment date. Personal property taxes are self assessed and are due in May 15th, when the related property tax return is required to be filed.

The tax rate per annum is 6.04% for real property and 4.04% for personal property of which 0.83% of both belongs to the Commonwealth of Puerto Rico and 5.21% and 3.21%, respectively belong to the Municipality. From the portion belonging to the Municipality, 4.72% and 2.72%, respectively, represents the Municipality's basic tax rate which is appropriated for general purposes, and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of .49% represents the "ad valorem" tax withheld by the "CRIM" and restricted for debt service which is accounted for through the debt service fund. The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the "ad valorem" tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

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

As of June 30, 2001, the Municipality of Hatillo received the amount of property taxes under the advances made by the CRIM by \$555,741, which are included as Due from Municipal Revenue Collection Center in the Balance Sheet of the General Purpose Financial Statements. This amount was a preliminary estimate provided by the CRIM, subject to be changed on their final liquidation.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(4) MUNICIPAL BUSINESS TAXES

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

The tax rates are as follows:

- From .3% to .5% for financial institutions, thrift and loan associations.
- .5% for all other non-financial organizations.

Taxes are payable in two equal semiannual installments on or before July 1 and January 1 following the levy date. A 5% discount is granted only if the total amount is paid on or before the filing date of April 15th. Collections of taxes applicable to the next fiscal year are recorded as deferred revenues.

(5) INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenues consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Power Authority and the Puerto Rico Water Company among other quasi-public corporations and state government funds.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. All of these intergovernmental revenues are accounted for through the general fund except for those directly related to the special revenue fund.

(6) GENERAL FIXED ASSETS

The following is a summary of the general fixed assets as of June 30, 2001:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment, real estate and other	<u>\$15,581,837</u>	<u>\$145,743</u>	<u>\$ 191,819</u>	<u>\$15,535,761</u>

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(7) GENERAL AND SPECIAL OBLIGATIONS

The following is a summary of the long-term debt, payable to Government Development Bank for Puerto Rico as of June 30, 2001:

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
Long-Term General Obligations	\$7,140,276	\$420,000	\$7,560,276
Matured Bonds and Notes	325,000	115,000	440,000
Enterprise Fund General Obligations	<u>3,626,724</u>	<u>-</u>	<u>3,626,724</u>
	<u>\$11,092,000</u>	<u>\$535,000</u>	<u>\$11,627,000</u>

GENERAL OBLIGATIONS - BONDS AND NOTES:

\$624,000 Series of 1998 payable in annual installments of \$10,000 to \$15,000 through January 1, 2022; interest at 4.5%.	\$ 607,000
\$2,810,000 Series of 1999, bonds payable in annual principal installments of \$40,000 to \$250,000 and interests, of 8% payable semi-annually through July 1, 2023.	2,730,000
\$715,000 Series of 1996, bonds payable in annual principal installments of \$10,000 to \$65,000 and interests, of 8% payable semi-annually through July 1, 2020.	670,000
\$700,000 Series of 2000, bonds payable in annual principal installments of \$50,000 to \$100,000 and interests, of 8% payable semi-annually through July 1, 2009.	650,000
\$3,875,000 Series of 1997, bonds payable in annual principal installments of \$65,000 to \$345,000 and interests payable semi-annually at 8% through July 1, 2020. Eighty percent (80%) of the bonds payable will be recognized by the Proprietary Fund Type, Enterprise Fund and the remaining twenty percent (20%) by the ad valorem property taxes collected by the Municipal Revenue Collection Center (CRIM).	3,665,000
\$2,265,000 Series of 2001, bonds payable in annual of \$30,000 to \$200 with interests at 8.00% through July 1, 2025.	2,265,000
\$550,000 Series of 1995, bonds payable in annual of \$14,000 to \$38,000 with interests at 4.5% through January 1, 2020.	<u>505,000</u>
TOTAL BONDS PAYABLE	<u>11,092,000</u>
\$650,000 Note payable series of 1999 payable in annual installments of \$110,000 to \$150,000 through July 1, 2003; interest at 6.31% to 8.0%	420,000
\$255,000 note payable at 1997, payable in annual principal installments of \$45,000 to \$60,000 and semi-annually interest at 6.7% to 8% through July 1, 2002.	<u>115,000</u>
TOTAL NOTES PAYABLE	<u>535,000</u>
TOTAL GENERAL OBLIGATIONS-BOND AND NOTES	<u>\$11,627,000</u>

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(7) GENERAL AND SPECIAL OBLIGATIONS (CONTINUED)

The annual requirements to amortize the general long-term debt outstanding as of June 30, 2001, including interest payments of \$10,671,807 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	440,000	\$ 648,633	\$ 1,088,633
2003	477,000	806,226	1,283,226
2004	444,000	679,847	1,123,847
2005	320,000	659,418	979,418
2006 and there after	<u>9,946,000</u>	<u>7,877,683</u>	<u>17,823,683</u>
	<u>\$11,627,000</u>	<u>\$10,671,807</u>	<u>\$22,298,807</u>

Interests payable for the year 2002 of \$648,633, includes \$471,537 which will be paid by the Debt Service Fund and \$177,096 by the Enterprise Fund.

(8) DEBT SERVICE FUND

Revenues of the debt service fund consist of accretion of discounts on investments which are recorded as interest income on investments and the ad valorem property taxes which are recognized as revenue when they are collected and reported, before, by the P.R. Department of Treasury and now, by the Municipal Revenue Collection Center (CRIM). Interest income is for the payment of interest or special obligations of the general obligations bonds and notes.

On the fiscal year ended June 30, 2001, principal and interest on these obligations are paid by the Governmental Development Bank from funds obtained from the following:

Property Taxes	<u>\$1,065,555</u>
Payments at June 30, 2001 were as follows:	
Principal	\$ 337,635
Interest	378,133
	<u>\$ 715,768</u>

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(9) EMPLOYEE'S RETIREMENT PLAN

Substantially all employees participate in the Retirement System of the Commonwealth of Puerto Rico (System), a multiple-employer public employee retirement system. All employees which at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 and with the minimum years of service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute. The System also provides death and disability benefits established by Commonwealth statute.

Covered employees are required by Commonwealth statute to contribute, depending on selected alternatives, from 5.775 percent to 8.275 percent of their salary to the plan. The Municipality is required by the same statute to contribute 9.275 percent of the participant's salary.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increase and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulation sufficient assets to pay benefits when due, and make comparisons between public employee retirement system, and employers.

(10) CONTINGENCIES

The Municipality is defendant and or co-defendant in various pending lawsuits. The aggregate amount of such claims against the Municipality is \$3,786,824. Most of these cases are in the stage of disclosure of evidence as informed by Municipality's officials and legal representation. During the year, the Municipality's administration after consultation with the Legal Counsel, transacted certain claims amounted to \$50,000, which will be paid by the insurance company, as confirmed by the Legal Counsel. The Municipality's officials, after consultation with Legal Counsel, is of the opinion that the ultimate liability of pending lawsuits, if any, would not be material in relation to the financial position of the Municipality.

The Municipality participated in a number of federally-assisted grant programs. These grants are subject to audits to assure compliance with grant provisions. The audits of some of these programs for or including the year ended June 30, 2001, are in progress. Accordingly, the amount of expenditures which may be disallowed by the granting agencies, if any, will be established at some future date. However, the Municipality expects such amounts, if any, to be immaterial.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE, 30 2001

(10) CONTINGENCIES (CONTINUED)

The Capital Project Fund reflects construction commitments for which the Municipality is obligated to provide a donation for the execution of these projects. These are commitments for the improvements of recreational and cultural facilities and for streets and general developments.

(11) ENTERPRISE FUND

In June 1996, the Municipality acquired the property Punta Maracayo Camping located in Barrio Carrizales of Hatillo, Puerto Rico in the amount of \$700,000 with a FEPEG loan granted by the Government Development Bank of Puerto Rico. The intent of the governmental body was to develop an area with recreational facilities for the general public with the purpose of developing local tourism. The Municipality obtained a loan with Government Development Bank for Puerto Rico in the amount of \$715,000, to cancel the FEPEG loan in the amount of \$700,000. The amortization table of principal and interest was included with the general bonds and notes obligations in Note 7.

In addition, a \$3,875,000 series of 1997 loan was obtained for further construction of facilities as an extension of Punta Maracayo Camping. A land lot was also acquired as part of the project.

(12) FUND BALANCE-UNDESIGNATED

For purposes of budget control and adjustment, the following is a reconciliation of amounts adjusted against undesignated fund balance for general fund as of June 30, 2001.

Fund balance, before adjustments of payables to other government units	<u>\$4,326,063</u>
Less accounts payable to other government units:	
Electricity Power Authority	100,579
Puerto Rico Water Authority	25,814
Department of Treasury	10,257
Governmental Retirement Agency	50,175
Puerto Rico Telephone	16,618
Others	<u>1,957</u>
	<u>205,400</u>
Fund balance, after adjustments of intergovernmental payables	<u>\$4,120,663</u>

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE, 30 2001

(13) ACCOUNT PAYABLE TO DEPARTMENT OF HEALTH

The amount is payable to Department of Health according Health Reform Act, to cover administration and expenses for the Health Insurance Agency in Puerto Rico. Several Public Health Centers have been sold to private companies by Department of Health. The Department of Health makes charges to the municipalities for their administration expenses. The balance of account payable is for the years ended prior to June 30, 1997. However, payment to Department of Health for Reform Act comes from Puerto Rico Electronic Lottery, not from the general fund, according law 29 of July 1, 1997. Effective July 1, 1997, current charges of the Department of Health are paid from the monthly reimbursements of property taxes collected by the Municipal Collection Center.

(14) AGREEMENT WITH LANDFILL TECHNOLOGIES OF ARECIBO, INC.

On August 1999, the Municipality of Hatillo formalized an agreement with Landfill Technologies de Arecibo, Inc. ("LFT") for the use of a land fill for waste disposal. This agreement was formerly carried out with the Municipality of Arecibo, until they outsourced this service to LFT. The agreement establishes fees and charges to be paid by Municipality of Hatillo. For each fiscal year LFT shall compute the amount of Municipal Disposal Fee Revenues that will be required to cause Interim System Expenses. The required amount of Municipal Disposal Fee Revenues will be computed as follows:

Municipal Disposal Fee Revenues= (Projected Interim System Expenses)-(Projected Non-Municipal Disposal Fee Revenues)

The Municipality of Hatillo has a 30 day period to pay invoices for waste disposition. As of June 30, 2001 the expense for waste disposal amounted to \$596,254.

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE, 30 2001

(15) DUE TO THE MUNICIPAL REVENUE COLLECTION CENTER

On June 5, 2000, the Municipal Assembly of Hatillo approved the Ordinance #34, for the authorization to file a request of participation in the financing of the Municipality's debt to the Municipal Taxes Revenue Collection Center (CRIM), under the terms and conditions of Law #42 of January 26, 2000. This law was approved to provide financing to Municipality's debt with the CRIM from the final liquidations of the fiscal years 1997-98 and 1998-99.

The Municipality of Hatillo filed a request of participation in this financing which was approved by CRIM. Therefore, the accompanying general purpose financial statements include as general long term debt in the general long term debt account group, \$364,634 amount payable to the CRIM.

(16) DUE FROM MUNICIPAL REVENUE COLLECTION CENTER

Due from Municipal Collection Center (CRIM) consist of subsequent collections received by the Municipality after June 30, 2001 for reimbursement made by CRIM related to the establishment of the CRIM's new computerized system (LIMS), and income over retention as per preliminary liquidation. The following is a summary of the amounts reported as Due from Municipal Revenue Collection Center:

Description	Amount
Amount receivable from property taxes	\$ 555,741
Reimbursement made by CRIM	<u>207,582</u>
	<u>\$763,323</u>

MUNICIPALITY OF HATILLO, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE, 30 2001

(17) SEWAGE COLLECTION SYSTEM AT QUIÑONES AND CARRIZALES COMMUNITIES

The Municipality of Hatillo was involved in the construction of a Sanitary Sewer System serving Quiñones and Carrizales Collection Communities. The primary purpose of such construction is to meet applicable health and sanitary standards enforced by the United States Environmental Protection Agency (EPA) and the Puerto Rico Department of Health. The facility shall serve about 503 residential users with a capacity to serve up to 629 residential users.

Funds required for this construction are provided through a Federal Grant Award approved by the United States Department of Agriculture (USDA) for \$3,780,100 and Municipal Contribution of \$1,264,000 made through loans approved by the Governmental Development Bank of Puerto Rico and collateralized by the USDA.

As of June 30, 2001, the project was completed and the total investment amounted to \$5,044,100. This amount is recognized in the expenditures of Capital Projects Fund from the inception previous years ago up to June 30, 2001.

(18) GASB-34

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: government-wide-financial statements and fund presentation. The government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for statements except the focus for presentation is on major funds rather than fund types. Capital assets and depreciation charges are reported on the entity-wide perspective financial statements. The Management's discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information. GASB-34 will begin to take effect for the Municipality in fiscal year after June 15, 2003.

**MUNICIPALITY OF HATILLO
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 2001**

FEDERAL GRANTOR PASS-THRU	FEDERAL GRANT NUMBER	EXPENDITURES
US Department of Housing and Urban Development:		
<u>Direct Program:</u>		
Section 8 Housing Choice Vouchers	14.871	\$287,253
Pass-Through the Office of the Commissioner of Municipal Affairs (OCAM):		
Community Development Block Grant	14.219	449,088
US DEPARTMENT OF HEALTH AND SERVICES:		
Passed-through Puerto Rico Elderly Commissions: Special Program for Aging, Title III, Part C		
	93.045	77,386
US DEPARTMENT OF AGRICULTURE:		
<u>Direct Program:</u>		
Water and Disposal Systems for Rural Communities	10.76	565,208
UDAG Recaptured Funds	Not Available	65,000
TOTAL FEDERAL ASSISTANCE EXPENDITURES		<u><u>\$1,443,935</u></u>

The accompanying Notes to Schedule of Federal Financial Assistance are an integral part of this Schedule.

MUNICIPALITY OF HATILLO
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 2001

(1) GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal assistance programs of the Municipality of Hatillo, Puerto Rico. The Municipality of Hatillo reporting entity is defined in note 1 to the general purpose financial statements. Federal financial assistance received were pass through funds from general agency.

(2) BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting which is described in note 1 to the general purpose financial statements.

(3) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Expenditures included in the accompanying Schedule agree with the amounts included in the general purpose financial statements as follows:

Fund Statements	Federal Assistance	Municipal Assistance	Total per Financial Statements
Special Revenue	\$364,639	\$159,428	\$524,067
Capital Project	<u>1,079,296</u>	<u>1,420,974</u>	<u>2,500,270</u>
	<u>\$1,443,935</u>	<u>\$1,580,402</u>	<u>\$3,024,337</u>

GONZÁLEZ TORRES & Co.

Certified Public Accountants and Consultants



Member of:
Puerto Rico Society of Certified Public Accountants
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and Municipal Assembly
Municipality of Hatillo
Hatillo, Puerto Rico

I have audited the general purpose financial statements of Municipality of Hatillo as of June 30, 2001 and for the year then ended, and have issued my report thereon dated December 10, 2000. I conducted my audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Municipality of Hatillo's general purpose financial statements are free of material misstatement, I 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance, which are included in the accompanying schedule of findings and questioned costs.

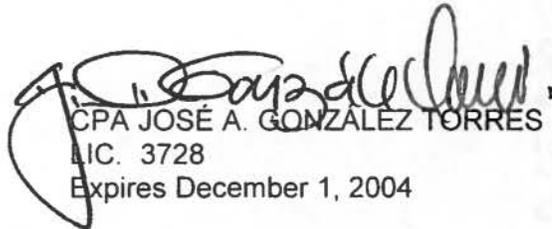
In planning and performing my audit, I considered Municipality of Hatillo's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and do not provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness. However, I noted other matters involving the internal control over financial reporting, which are included in the accompanying schedule of findings and questioned costs.

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

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.

San Juan, Puerto Rico
December 10, 2001

The stamp number 1735592
was affixed to original of this report.


CPA JOSÉ A. GONZÁLEZ TORRES
LIC. 3728
Expires December 1, 2004



GONZÁLEZ TORRES & Co.

Certified Public Accountants and Consultants

Member of:
Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners



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

To the Mayor and Municipal Assembly
Municipality of Hatillo
Hatillo, Puerto Rico

I have audited the compliance of Municipality of Hatillo with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Municipality of Hatillo's major federal programs are identified in the summary of auditor's results 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 program is the responsibility of Municipality of Hatillo's management. My responsibility is to express an opinion on Municipality of Hatillo's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I 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 Hatillo's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Municipality of Hatillo's compliance with those requirements.

In my opinion, the Municipality of Hatillo 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 my auditing procedures disclosed instances of noncompliance with those requirements, which 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.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
WITH OMB CIRCULAR A-133
(CONTINUED)

The management of Municipality of Hatillo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Hatillo's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclosed 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 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. I noted no matters involving the internal control over compliance and its operation that I consider to be a material weakness.

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.

San Juan, Puerto Rico
December 10, 2001

The stamp number 1735593
was affixed to the original of this report.


CPA JOSÉ A GONZÁLEZ TORRES
LIC. 3728
Expires December 1, 2004



MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

1. Summary of audit results.

Part I Financial Statements:

1. Type of audit report:

- Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

2. Reportable conditions reported

- Yes No

3. Reportable condition reported as a major weakness:

- Yes No

4. Material noncompliance disclosed:

- Yes No

Part II Federal Awards

1. Type of report: on compliance for major programs:

- Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

2. Reportable condition reported as a major weakness:

- Yes No

3. Material noncompliance disclosed:

- Yes No

MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

1. Summary of audit results (continued):

Part II **Federal Awards (continued):**

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

5. Major Programs:

CFDA Number (s)	Federal Program Grantor and Program Name
14.228	<i>US Department of Housing and Urban Development: Community Development Block Grant</i>
10.76	<i>US Department of Agriculture: Water and Disposal System for Rural Communities</i>

6. Dollar threshold used to distinguish Type A and Type B programs:

\$300,000 or 3% of total federal awards expended

7. Low-risk auditee

Yes No

8. Waive risk criteria under 520 (i) of Circular A-133

Yes No

**MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

Finding 2001-1

Federal Program:

**Community Development Block Grant - State's Program (CFDA 14.228)
U.S. Department of Housing and Urban Development
Pass-through State - Office of the Commissioner of Municipal Affairs**

Requirement: Internal control

Noncompliance: Allowable Cost/Cost Principles

Condition:

In noted in my tests of the Municipality internal control over disbursement process, that the supporting documents pertaining to one disbursement was not stamped as paid and that the supporting documents pertaining to one disbursement was not pre-audited.

Criteria:

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart c, 44 CFR, 13.20 (b) (3) (OMB Common Rule) Requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure that they will be used solely for authorized purposes.

Effect:

Liabilities could be paid twice by the Municipality, an unallowable cost.

Cause:

There are no adequate internal control procedures implemented to assure this compliance.

Recommendation:

The Municipality should stamp all disbursement supporting documents in order to assure compliance with this requirement.

**MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

Finding 2001-2

Requirement:

Reportable condition over disbursement process

Condition:

I noted in my tests of the Municipality internal control over disbursement process, that the purchase orders of three disbursements were not included with the vouchers of those transactions, and that supporting documents related to five disbursements of municipal funds were not stamped as paid. Also the Municipality the vouchers of the following disbursement was not available for our examination:

PAYEE	DATE	CHECK NUMBER	AMOUNT
Director de Finanzas	36909	32576	\$1,061.37

Criteria

Article 8.010 of State Act Number 81 of August 30, 1991, stated the Municipality should maintain accurate accounting records and fund controls.

Effect:

Liabilities could be paid twice by the Municipality, an unallowable cost.

Cause:

There are no adequate internal control procedures implemented to assure this compliance.

Recommendation:

The Municipality should stamp all disbursement supporting documents in order to assure compliance with this requirement.

MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

Finding 2001-3

Reportable condition over employee records

Condition:

On the samples selected to test the compliance with local and federal regulations in the recruitment process, I found lack of proper documentation in some employees files with respect to the evaluation of the general conditions to the enrollment of employees as required on the Autonomous Municipality's Law, title 21, Section 4557 and Section 4572.

Criteria:

Section 4557 refers to the rules and regulations which govern the recruitment and selection of an employee and establishes general conditions to the employment of a candidate such as:

1. Be fiscally and mentally able to perform his/her duties and assignments.
2. Be a citizen of the United States of America or a legal alien authorized to work in the United States of America.

Section 4572 refers to rules and regulations which governs the employee file maintenance and retention. This section requires that each Municipality must maintain a file employee in a complete fashion with all relevant data since the commencement of their duties to the date of termination.

Cause and effect:

On the sample of sixty-four employees of the payroll period examined, I found the following documents missing:

1. Four employee files did not include I-9 form.
2. One employee files did not include "Anti-Drug Policy Acknowledgment".
3. Five employee files did not include the Police Department's Good Behavior Certificate.
4. Fifty-five files did not include an employment application.
5. Thirty-one files did not include evidence that an employee manual was submitted to them.

Recommendations:

Adherence to policies and procedures established by the Municipality and in accordance with the regulations referred to this condition and require the review of each employee file to watch compliance in terms of the documentation missing on it.

**MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

Finding 2001-4

Reportable conditions over auction process

Condition:

I noted in my test of the auction process that four bidders in three auctions did not provide a bid bond and that a notification of award was not sent to a bidder after the auction was adjudicated.

Criteria:

Article 10.006 (a) of State Act Number 81 of August 30, 1991, states that after an auction has been adjudicated, all bidders must receive a notification letter indicating to whom the auction was adjudicated. The Municipality required a bid bond to be presented for the auctions celebrated during the year.

Effect:

The bidders that did not submit the bid bond may not maintain their offers causing the Municipality to celebrate a second auction. Also the bidders that are not notified of the award may challenge the auction causing delays and additional costs to the Municipality.

Cause:

The Municipality did not verify that all documents required for the auction were included with the bidders offer. There were no adequate internal control procedures implemented to assure this compliance.

Recommendation:

The Municipality should verify that all the requirements of an auction are complete by a bidder before allowing the bidder to participate in the auction. The Municipality should notify all bidders when an auction has been awarded.

MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

Finding 2001-5

Reportable condition over local municipal taxes collection procedures

Condition:

I noted in my test of the collection of municipal taxes that nine taxpayers did not submitted their Volume of Business Declaration.

Criteria:

Chapter IX Section 6 (1) of the Revised Basic Rules for the Municipalities of Puerto Rico established by the Commissioner of Municipal Affairs establishes that all persons making business in the Municipality must submit a Volume of Business Declaration. It also estates that Volume of Business Declarations exceeding \$1,000,000 will not be considered submitted if audited financial statements are not included.

Effect:

The Municipality loses revenue and the business operate illegally in the Municipality.

Cause:

The Municipality did not take any action to require the business to submit their Volume of Business Declaration or justify why they have not been sent.

Recommendation:

The Municipality should require the business to submit their declarations and take any actions required so they comply with the law.

MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

Finding 2001-6

Water and Disposal System for Rural Communities (CFDA 10.760)
U.S. Department of Agriculture

Requirement: Reporting

Condition:

The Municipality did not complete the following reports:

1. SF-270, Request for Advance or Reimbursement
2. SF-271, Outlay Report and Request for Reimbursement for Construction Programs
3. SF-272, Federal Cash Transaction Report
4. Form RD 442-2, Statement of Budget, Income and Equity
5. Form RD 442-3, Balance Sheet

Criteria:

The Office of Management and Budget (OMB) has issued OMB Circular A-133, set forth specific reporting requirements for each federal program such as; Financial Status Reports, Request for Advance or Reimbursement, Outlay Report and Request for Reimbursement for Construction Programs, Federal Cash Transaction Report, Statement of Budget, Income and Equity, and Balance Sheet.

Cause:

There are no adequate internal control procedures implemented to assure this compliance.

Effect:

The federal agency may not have accurate and updated financial information of the program.

Recommendations:

The Municipality should complete the mentioned reports.

**MUNICIPALITY OF HATILLO, PUERTO RICO
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

Finding 2001-7

Reportable condition over accounting records

Condition:

During my audit I noted that The Municipality computerized accounting records reflected differences compared to their manual accounting records for revenues accounts in the General Ledger.

Questioned Costs:

No Questioned Costs were found on this area.

Criteria:

Article 8.010 of State Act Number 81 of August 30, 1991, stated the Municipality should maintain accurate accounting records and fund controls.

Cause:

The Municipality computerized accounting system is overstating revenues.

Effect:

The Municipality can not rely on the computerized accounting system reports.

Recommendations:

I recommend to the Municipality's management, to correct the discrepancies between the computerized and manual accounting records.

**MUNICIPALITY OF HATILLO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

I. Audit Finding that have been fully corrected:

Finding number four (4): (June 30, 2000)

Reportable condition over eligibility requirements.

Section 8 Program (CFDA 14.855 & 14.857)
Department of Housing and Urban Development

No questioned costs.

Comments: The Municipality's Federal Program Department reviewed the participants' files during the merge of the Section 8 Programs and requested the documents missing.

Finding number six (6): (June 30, 2000)

Reportable condition over accounting records

No federal funds involved.

No questioned costs.

Comments: The Municipality segregated the funds of the enterprise funds from the general fund.

MUNICIPALITY OF HATILLO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001

II. Audit Finding not corrected or partially corrected:

Finding number one (1): (June 30, 2000)

Reportable condition over local municipal taxes collection procedures.

No federal funds involved.

No questioned costs.

Comments: The Municipality should require the business to submit their declarations and take any actions required so they comply with the law.

Finding number two (2): (June 30, 2000)

Reportable condition over employee records.

No federal funds involved.

No questioned costs.

Comments: The Municipality should adhere to policies and procedures established, in accordance with the regulations and review each employee file to watch compliance in terms of the documentation missing on it.

Finding number three (3) and (5): (June 30, 2000)

Reportable condition on reporting requirements of the USDA Water and Disposal System for Rural Communities Program and HUD Section 8 Programs.

CFDA 10.760 and CFDA 14.855 & 14.857

No questioned costs.

Comments: The following reports should be completed by the Municipality:

1. SF-270, Request for Advance or Reimbursement
2. SF-271, Outlay Report and Request for Reimbursement for Construction Programs
3. SF-272, Federal Cash Transaction Report
4. Form RD 442-2, Statement of Budget, Income and Equity
5. Form RD 442-3, Balance Sheet
6. HUD-52681 - "Voucher for Payment of Annual Contribution and Operating Statement"
7. HUD-52595 - "Balance Sheet for Section 8 and Public Housing"

MUNICIPALITY OF HATILLO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001

Finding number six (6): (June 30, 2000)

Reportable condition over accounting records.

No federal funds involved.

No questioned costs.

Comments: The Municipality should correct the discrepancies between the computerized and manual accounting records.

Finding number one (1) (June 30, 1999)

Comments: See Finding number one (1): (June 30, 2000) above.

Finding number four (4) (June 30, 1999)

Comments: See Finding number two (2): (June 30, 2000) above.

Finding number five (5) (June 30, 1999)

Comments: See Finding number three (3) and five (5): (June 30, 2000) above.

Condition number two (2) (Prior to June 30, 1998):

Comments: See Finding number two (2): (June 30, 2000) above.

**MUNICIPALITY OF HATILLO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

III. Corrective Action taken is significantly different from corrective action previously reported:

None

IV. Audit Findings no longer valid:

Finding number five (5): (June 30, 2000)

Reportable condition over cash management.

Section 8 Rental Voucher Program (CFDA 14.855) and Section 8 Rental Certificates Program (CFDA 14.857)

U.S. Department of Housing and Urban Development

No questioned costs.

Comments: The Department of Housing and Urban Development rental assistance program were merged. The need of separate bank accounts for the funds is no longer necessary.

AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

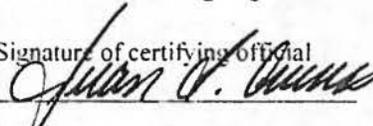
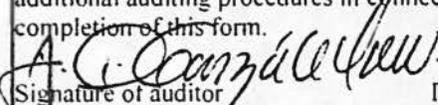
RETURN TO: Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132

Form SF-SAC(3-20-2001)

OMB #0348-0057

Report ID : 28140

2/4/02

Part I: GENERAL INFORMATION	
1. Fiscal year ending date for this submission (mm/dd/yyyy) 06/30/2001	2. Type of A-133 audit <input checked="" type="radio"/> Single audit
3. Audit period covered <input checked="" type="radio"/> Annual	4. Date received by clearinghouse CENSUS USE ONLY
5. Employer Identification Number (EIN) a. Auditee EIN 660433497	b. Are multiple EINS covered in this report? <input checked="" type="radio"/> No
6. AUDITEE INFORMATION	7. AUDITOR INFORMATION
a. Auditee name MUNICIPALITY OF HATILLO, PUERTO RICO	a. Auditor name GONZALEZ TORRES & CO.
b. Auditee address (Number and street) PO BOX 8	b. Auditor address (Number and street) 1733 CALLE TINTO RIO PIEDRAS HEIGHTS
City HATILLO	City SAN JUAN
State Zip Code PR 00659 -	State Zip Code PR 00926 - 3252
c. Auditee contact Name RAFAEL MEDINA	c. Auditor contact Name JOSE A. GONZALEZ, CPA
Title FINANCE DIRECTOR	Title OWNER
d. Auditee contact telephone (787) 898 - 5225	d. Auditor contact telephone (787) 764 - 8664
e. Auditee contact FAX (Optional) (787) 262 - 0534	e. Auditor contact FAX (Optional) (787) 764 - 8643
f. Auditee contact E-mail (Optional)	f. Auditor contact E-mail (Optional)
g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.	g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The Auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.
Signature of certifying official  Date 2/7/02	Signature of auditor  Date 12/10/2001
Name/Title of certifying official Hon. Juan L. Cuevas Castro/Mayor	

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)		
<input checked="" type="radio"/> 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		
Part II: FINANCIAL STATEMENTS (To be completed by auditor)		
1. Type of audit report (Mark (x) one box)		
<input checked="" type="radio"/> Unqualified opinion		
2. Is a "going concern" explanatory paragraph included in the audit report?		
<input checked="" type="radio"/> No		
3. Is a reportable condition disclosed?		
<input checked="" type="radio"/> Yes		
4. Is any reportable condition reported as a material weakness?		
<input checked="" type="radio"/> No		
5. Is a material noncompliance disclosed?		
<input checked="" type="radio"/> No		
Part III: FEDERAL PROGRAMS (To be completed by auditor)		
1. Type of audit report on major program compliance		
<input checked="" type="checkbox"/> Unqualified 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)		
<input checked="" type="radio"/> No		
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ .520(b)) Round to the nearest dollar.		
\$300000.00		
4. Did the auditee qualify as a low-risk auditee? (§ .530)		
<input checked="" type="radio"/> No		
5. Is a reportable condition disclosed for any major program? (§ .510(a)(1))		
<input checked="" type="radio"/> Yes		
6. Is any reportable condition reported as a material weakness? (§ .510(a)(1))		
<input checked="" type="radio"/> No		
7. Are any known questioned costs reported? (§ .510(a)(3) or (4))		
<input checked="" type="radio"/> No		
8. Was a Summary Schedule of Prior Audit Findings prepared? (§ .315(b))		
<input checked="" type="radio"/> Yes		
9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to direct funding. (Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.		
10	<input checked="" type="checkbox"/>	Department of Agriculture
14	<input checked="" type="checkbox"/>	Department of Housing and Urban Development
In addition, one copy each of the reporting package is required for:		
1the Federal Audit Clearinghouse archives	
0and, if not marked above, the cognizant agency (if identified in Part I, Item 9)	
3Total number of reporting packages to be submitted	

Part III: FEDERAL PROGRAMS Continued									
10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
Row	10a. CFDA Number		10b. Research and development	10c. Name of Federal Program	10d. Amount expended in Whole Numbers	10e. Direct Award	10f. Major program	11a. Type of compliance requirement (3)	11b. Audit finding reference # (s) (4)
	Federal Agency Prefix (1)	Extension (2)							
1	14.	871	<input checked="" type="checkbox"/> N	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 287253 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
2	14.	219	<input checked="" type="checkbox"/> N	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 449088 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y	B	2001-1
3	93.	045	<input checked="" type="checkbox"/> N	SPECIAL PROGRAM FOR THE AGING, TITLE III, PART C	\$ 77386 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
4	10.	760	<input checked="" type="checkbox"/> N	WATER AND DISPOSAL SYSTEMS FOR RURAL COMMUNITIES	\$ 565208 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	L	2001-6
5	14.	219	<input checked="" type="checkbox"/> N	UDAG RECAPTURED FUNDS	\$ 65000 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
Computer Generated Total Federal Awards Expended:				\$ 1443935					
TOTAL FEDERAL AWARDS EXPENDED				\$1443935					

*Footnotes for Part 3 - Item 10 and Item 11

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.
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 weakness), questioned costs, fraud, and other items reported under §_510 (a)) reported for each Federal program.

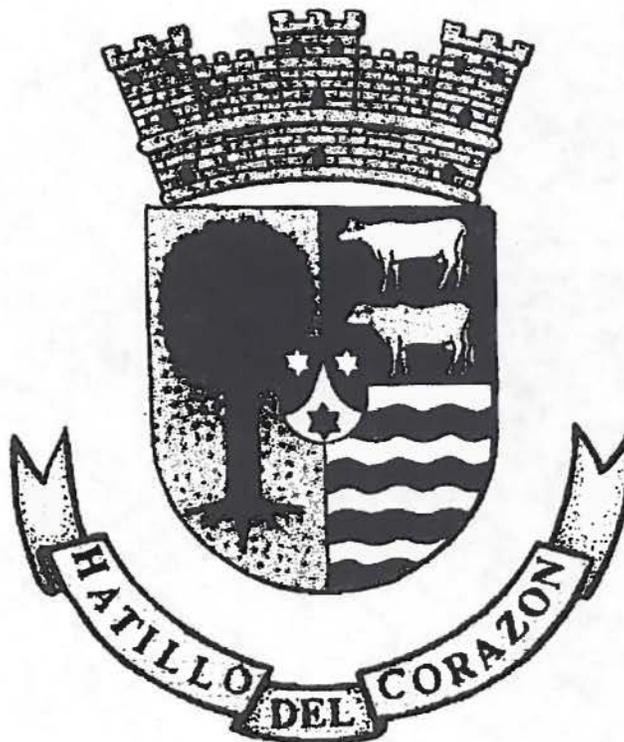
- | | | |
|---|--|---------------------------------|
| A. Activities allowed or unallowed | G. Matching, level of effort. | L. Reporting |
| B. Allowable costs/cost principles | earmarking | M. Subrecipient monitoring |
| C. Cash management | H. Period of availability of funds | N. Special tests and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

4. N/A for None.

No EINS have been entered on Page 4.

OK

**MUNICIPIO DE HATILLO
OFICINA DE AUDITORIA INTERNA
262-2498**



OCAM
COMISION REGULACION
E INTERVENCION

02 MAR 21 PM 4:10

OCAM
OFICINA ADMINISTRACION

2002 MAR 20 AM 11:48

**A: SR. JUAN B. COLON RIVERA
COMISIONADO AUXILIAR INTERINO
OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**DE: SR. JESUS A. ALICEA TORRES
AUDITOR INTERNO**

FECHA: 19 de marzo de 2002

FAX: 753-6080

CANTIDAD DE PAGINAS: 3 - INCLUYE LA PORTADA

ASUNTO: CONTESTACION AUDITORIA SENCILLA 2000-2001.

MI ESCO.



ESTADO LIBRE ASOCIADO DE PUERTO RICO
Gobierno Municipal de Hatillo
 APARTADO 8
 HATILLO, PUERTO RICO 00659
OFICINA DE AUDITORIA INTERNA

March 19, 2002

Mr. José A. González Torres
 Certified Public Accountant
 González Torres & Co.

Dear Mr. González:

In request to the findings named in the Single Audit Report for the year ended June 30, 2001, we inform the following:

FINDING	RESPONSIBLE	MANAGEMENT	CORRECTIVE	ANTICIPATED
NUMBER	INDIVIDUAL	VIEWS	ACTION	COMPLETION
*****	*****	*****	PLAN	DATE
2001-1	Rafael Medina (Finance Director)	The document has been already revised. (See exhibit 1-2)	Complimented	March 7, 2002
2001-2	Rafael Medina (Finance Director)	The check was founded. (See exhibit 3)	Complimented	March 8, 2002
2001-3	Juanita Rodríguez (Human Relation Director)	The documents had been required and complimented.	Partially Complimented	April 30, 2002
2001-4	Edwin Rosado (Municipal Secretary)	The Municipal Secretary Division is searching the information.	Pending	April 30, 2002
2001-5	Rafael Medina (Finance Director)	Eight of the taxpayers submit the volume of Business Declaration (See Exhibit 4)	Complimented	March 15, 2002
2001-6	Ricardo Lizasuain (Federal Programs Director)	The Federal Program Director States that this forms only applies for programs of Housing Preservation Grant.	Complimented	March 10, 2002
2001-7	Rafael Medina (Finance Director)	The Financial Division is Working to up date the information.	Pending	June 30, 2002

PREPARE BY:



MR. JESUS A. ALICEA TORRES
INTERNAL AUDITOR



MR. RAFAEL MEDINA MARTINEZ
FINANCE DIRECTOR

JAT/RMM/vrr

cc. Hon. Juan L. Cuevas Castro
Mayor

Hon. José Delgado
President
Auditor Commission