

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

**MUNICIPIO DE HORMIGUEROS**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

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

**MUNICIPALITY OF HORMIGUEROS**

JUNE 30, 2002



## Report of Independent Certified Public Accountants

Mayor and Municipal Legislature  
Municipality of Hormigueros  
Hormigueros, Puerto Rico

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

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

As more fully described in Note C(13), the Municipality has not determined an adequate estimate of the solid waste landfill closure and postclosure care costs as required by generally accepted accounting principles. The effect of this departure from U.S. generally accepted accounting principles on the accompanying general purpose financial statements is not reasonably determinable.

In our opinion, except for the effects of not including an adequate estimate of the solid waste landfill closure and postclosure costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Hormigueros, Puerto Rico, as of June 30, 2002, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2002 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 of the Municipality of Hormigueros, Puerto Rico, 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 and 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 in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.



*Roldan y Asociados*

Mayagüez, Puerto Rico  
December 10, 2002

Municipality of Hormigueros

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debts	
<b>ASSETS AND OTHER DEBITS</b>							
Cash and certificates of deposits (note C1)	\$ 4,188,243	\$ 1,004,447	\$ -	\$ -	\$ -	\$ -	\$ 5,192,690
Receivables (net where applicable of allowance for uncollectible)							
Lease Payments (note C2)	882,094	-	-	-	-	-	882,094
Federal government	-	54,129	-	-	-	-	54,129
License tax (note C10)	305,624	-	-	-	-	-	305,624
Due from other funds (note C4)	70,497	1,024,088	-	-	-	-	1,094,585
Restricted assets							
Cash (note C5)	-	335,743	589,046	715,882	-	-	1,640,671
Property, plant and equipment (note C6)	-	-	-	-	30,377,381	-	30,377,381
Amount available in debt service fund	-	-	-	-	-	589,046	589,046
Amount to be provided for retirement of general and special obligation bonds and notes	-	-	-	-	-	6,733,954	6,733,954
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	2,094,985	2,094,985
<b>Total assets and other debits</b>	<b>\$ 5,446,458</b>	<b>\$ 2,418,407</b>	<b>\$ 589,046</b>	<b>\$ 715,882</b>	<b>\$ 30,377,381</b>	<b>\$ 9,417,985</b>	<b>\$ 48,965,159</b>

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

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 MUNICIPALITY OF HORMIGUEROS

Municipality of Hormigueros

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debts	
<b>LIABILITIES</b>							
Vouchers and accounts payable	\$ 374,737	\$ 120,466	\$ -	\$ 135,109	\$ -	\$ -	\$ 630,312
Due to state governmental agencies (note C3)	2,527	-	-	-	-	-	2,527
Accrued liabilities	107,554	-	-	-	-	-	107,554
Deposits payable	61,545	-	-	-	-	-	61,545
Due to other funds (note C4)	1,024,088	70,497	-	-	-	-	1,094,585
Deferred revenues (note C7)	2,083,447	88,001	-	-	-	-	2,171,448
General and special obligations bonds and and notes (note C8)	-	-	-	-	-	7,323,000	7,323,000
Other long-term debts (note C8)	-	-	-	-	-	2,094,985	2,094,985
<b>Total liabilities</b>	<b>3,653,898</b>	<b>278,964</b>	<b>-</b>	<b>135,109</b>	<b>-</b>	<b>9,417,985</b>	<b>13,485,956</b>
Contingencies (note D )							
<b>FUND EQUITY AND OTHER CREDITS</b>							
Investment in general fixed assets	-	-	-	-	30,377,381	-	30,377,381
Fund balance							
Reserved for debt service	-	-	589,046	-	-	-	589,046
Unreserved							
Designated for subsequent years expenditures	-	2,139,443	-	580,773	-	-	2,720,216
Undesignated	1,792,560	-	-	-	-	-	1,792,560
<b>Total fund equity and other credits</b>	<b>1,792,560</b>	<b>2,139,443</b>	<b>589,046</b>	<b>580,773</b>	<b>30,377,381</b>	<b>-</b>	<b>35,479,203</b>
<b>Total liabilities, fund equity and other credits</b>	<b>\$ 5,446,458</b>	<b>\$ 2,418,407</b>	<b>\$ 589,046</b>	<b>\$ 715,882</b>	<b>\$ 30,377,381</b>	<b>\$ 9,417,985</b>	<b>\$ 48,965,159</b>

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

Municipality of Hormigueros

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUNDS TYPES  
Year ended June 30, 2002

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues</b>					
Property taxes (note C9)	\$ 2,965,785	\$ -	\$ 781,069	\$ -	\$ 3,746,854
Municipal license taxes, licenses and permits (note C10)	1,549,641	-	-	-	1,549,641
Intergovernmental (note C11)	2,727,778	2,995,581	-	359,592	6,082,951
Rental income of properties	195,040	-	-	-	195,040
Fines and forfeitures	1,105	-	-	-	1,105
Interest	70,217	-	24,495	43,781	138,493
Sales of land plots	54,940	-	-	-	54,940
Other	303,260	-	-	-	303,260
	<u>7,867,766</u>	<u>2,995,581</u>	<u>805,564</u>	<u>403,373</u>	<u>12,072,284</u>
<b>Expenditures</b>					
General government	4,160,067	678,413	-	6,432	4,844,912
Public safety	500,937	29,380	-	-	530,317
Highway and streets	1,276,657	-	-	-	1,276,657
Sanitation	513,750	43,472	-	-	557,222
Health	368,713	-	-	-	368,713
Welfare	277,022	615,778	-	-	892,800
Culture and recreation	466,960	145,899	-	-	612,859
Education	18,265	1,566	-	-	19,831
Capital projects	-	1,212,077	-	2,891,970	4,104,047
Other	61,958	28,488	-	-	90,446
Debt service					
Principal	-	-	395,000	-	395,000
Interest	-	-	311,128	-	311,128
Total expenditures	<u>7,644,329</u>	<u>2,755,073</u>	<u>706,128</u>	<u>2,898,402</u>	<u>14,003,932</u>
Excess (deficiency) of revenues over expenditures	223,437	240,508	99,436	(2,495,029)	(1,931,648)
<b>Other financing sources (uses)</b>					
Lease principal payments (note C2)	88,845	-	-	-	88,845
Operating transfers in	109,365	1,503,428	124,707	250,000	1,987,500
Operating transfers out	124,706	250,000	1,569,013	43,781	1,987,500
Liabilities expected to be refinanced (note C8)	163,711	-	-	-	163,711
General obligation bonds (note C8)	-	-	-	1,410,000	1,410,000
Bond Anticipation Notes (note C8)	-	-	-	588,169	588,169
Total other financing sources (uses)	<u>237,215</u>	<u>1,253,428</u>	<u>(1,444,306)</u>	<u>2,204,388</u>	<u>2,250,725</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	460,652	1,493,936	(1,344,870)	(290,641)	319,077
Fund balance at beginning of year	<u>1,331,908</u>	<u>645,507</u>	<u>1,933,916</u>	<u>871,414</u>	<u>4,782,745</u>
Fund balance at end of year	<u>\$ 1,792,560</u>	<u>\$ 2,139,443</u>	<u>\$ 589,046</u>	<u>\$ 580,773</u>	<u>\$ 5,101,822</u>

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

Municipality of Hormigueros

COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUNDS TYPES

Year ended June 30, 2002

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
<b>Revenues</b>						
Property taxes	\$ 2,965,785	\$ 2,965,785	\$ -	\$ 711,134	\$ 781,069	\$ 69,935
Municipal license taxes, licenses and permits	1,515,090	1,549,641	34,551	-	-	-
Intergovernmental	2,815,643	2,727,778	(87,865)	-	-	-
Rental income of properties	137,635	195,040	57,405	-	-	-
Fines and forfeitures	2,000	1,105	(895)	-	-	-
Interest	160,320	179,582	19,262	-	19,693	19,693
Sales of land plots	43,999	54,940	10,941	-	-	-
Other	276,816	303,260	26,444	-	-	-
	<u>7,917,288</u>	<u>7,977,131</u>	<u>59,843</u>	<u>711,134</u>	<u>800,762</u>	<u>89,628</u>
<b>Expenditures</b>						
General government	4,168,561	4,013,208	155,353	-	-	-
Public safety	519,313	500,937	18,376	-	-	-
Highway and streets	1,459,511	1,276,657	182,854	-	-	-
Sanitation	516,109	513,750	2,359	-	-	-
Health	401,622	368,713	32,909	-	-	-
Welfare	308,171	277,022	31,149	-	-	-
Culture and recreation	482,873	466,960	15,914	-	-	-
Education	18,265	18,265	-	-	-	-
Other	7,000	6,957	43	-	-	-
Debt service						
Principal	-	-	-	460,659	335,000	125,659
Interest	-	-	-	250,475	253,616	(3,141)
Total expenditures	<u>7,881,425</u>	<u>7,442,468</u>	<u>438,957</u>	<u>711,134</u>	<u>588,616</u>	<u>122,518</u>
Excess (deficiency) of revenues over expenditures	35,863	534,663	498,800	-	212,146	212,146
<b>Other financing sources (uses)</b>						
Operating transfers out	35,863	35,863	-	-	1,569,013	1,569,013
Total other financing sources (uses)	<u>(35,863)</u>	<u>(35,863)</u>	<u>-</u>	<u>-</u>	<u>(1,569,013)</u>	<u>(1,569,013)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 498,800</u>	<u>\$ 498,800</u>	<u>\$ -</u>	<u>\$ (1,356,867)</u>	<u>\$ (1,356,867)</u>

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

The Municipality of Hormigueros was founded in the year 1874. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The mayor is the executive officer and the legislative branch consists of twelve (12) members of the Municipal Legislature. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

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

1. *Financial reporting entity*

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and
  - 1) The primary government can impose its will on the potential component unit and/or
  - 2) A financial benefit/ burden exists between the primary government and the potential component unit.

There are two methods of presentation of the component unit in the financial statement:

- a) Blending the financial data of the component units balances and transactions in a manner similar to the presentation of the Municipality's balances.
- b) Discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions:

The "Corporación para el Desarrollo Integral de Hormigueros", an entity organized in accordance with Chapter XVII of the Autonomous Municipal Law No. 81 of Puerto Rico and the "Corporación para el Desarrollo Industrial y Comercial de Hormigueros, Inc." are considered component units of the Municipality of Hormigueros since the Municipality is financially accountable for those Corporations. Since the financial position and operations of those Corporations are not significant, the financial statements are not presented as part of the general purpose financial statements of the Municipality.

*2. Basis of presentation*

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds and account groups are reported by generic classification within the financial statements. Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes fund types and account groups that use different bases of accounting, includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the Municipality. The following fund types and account groups are used by:

*a. Governmental Funds*

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

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

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

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

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

Municipality of Hormigueros

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

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

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:

**General Fixed Assets Account Group.** This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group. Such assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets are capitalized. No depreciation is provided on General Fixed Assets. Equipment and all land and buildings are recorded at cost. Donated fixed assets are valued at their estimated fair market value on donation date.

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

3. *Basis of accounting*

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

Municipality of Hormigueros

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

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

a. *Governmental Funds*

These funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are measurable, available and collection is probable. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues are considered earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized as the time of receipt.

Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred. Exceptions to this rule are: (1) accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt in the debt service funds, which are recorded as expenditures when due, except for principal and interest due in July 1 of the following fiscal year, which is recorded when resources are available in the debt service funds.

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

4. *Budgetary data*

a. *Budget policy*

Budgets are prepared for General and Debt Service Funds following the requirements of the Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

items are not considered to be subject to direct control at the department level. These includes: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums. Budget amendments, which require a change in total appropriations of any department, are approved by the Municipal Legislature. Certain budget transfers within the limitations and restriction of the Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budgets are prepared on a budgetary (statutory) basis of accounting which is different from GAAP and reflect encumbrance accounting as described below. In instances where budget revenues appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final revenues and authorization amounts. Encumbrance appropriates lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. Formal budgetary information is employed as a management control device during the year for the General and Debt Service Funds. Formal budgetary integration is not employed for Special Revenue and Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

b. *Encumbrances*

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

5. *Receivables*

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

6. *Inventories*

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

*7. Insurance coverage*

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

*8. Compensated absences*

The Municipality's employee accumulates vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick pay is liquidated to employees with 10 years or more service up to the maximum number of days. The amount of vacations leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period.

The amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date. The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded in the General Long-Term Debt Account Group since it is anticipated that none of the liability already accrued will be liquidated with expendable available resources. Vacations and sick leave, when paid are recorded as expenditures in the General Fund.

*9. Interfund transactions*

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

*10. Use of estimates*

The preparation of the general purpose financial statement in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

*11. Fund balance*

*a. Reservation of fund balance*

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

Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods when the goods or services are received.

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

*b. Unreserved fund balance designations*

Represent tentative plans or commitments of governmental resources.

*12. Future adoption of accounting pronouncements*

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
34	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments	June 30, 2003
37	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 20 and 34.	June 30, 2003
38	Certain Financial Statement Note Disclosures	June 30, 2003
39	Determining Whether Certain Organizations Are Component Units - an amendment of GASB 34 Statement No. 14	June 30, 2004

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

**NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET STATUTORY BASIS TO GAAP**

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types has been prepared in accordance with GAAP and the Combined Statement of Revenues and Expenditures - Budget and Actual (Budget-Statutory) - General and Debt Service Funds has been prepared on the budgetary basis, which is different from GAAP. The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses in both statements:

Municipality of Hormigueros

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET  
STATUTORY BASIS TO GAAP - Continued

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Budgetary - statutory basis)	\$ 498,800
Add: Expenditures accrued under budget statutory basis but not for GAAP	16,852
Less: Expenditures recognized in GAAP basis but not in budget (statutory) basis	<u>(55,000)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 460,652</u>

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. *Cash and certificates of deposits*

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

2. *Lease Payments Receivable*

The Municipality is a lessor of a property, which consist of an office facility classified as direct financing lease. The lease term is for twenty years under a noncancelable lease agreement. The following list the component of the net investment in direct financing lease as of June 30:

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

Total minimum lease payments to be received	\$ 882,094
Less: Unearned income	<u>535,754</u>
Net investment in direct financing lease	<u>\$ 346,340</u>

At June 30, 2002, minimum lease payments for each of the five succeeding fiscal years are as follows:

Year	Amount
2003	\$ 76,152
2004	76,152
2005	76,152
2006	76,152
2007-2015	<u>577,486</u>
	<u>\$ 882,094</u>

3. *Due from (to) state governmental agencies*

The Municipality's debts with governmental agencies as of June 30, 2002 follows:

	Due to
Puerto Rico Aqueduct and Sewer Authority	\$ 823
General Services Administration	<u>1,704</u>
	<u>\$ 2,527</u>

4. *Due from (to) other funds*

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

5. *Restricted assets - cash*

Restricted cash balance in the general, special revenue and capital projects funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal government instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections and rental income, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law. Interest earned by this sinking fund during the fiscal year 2001-2002 amounted to \$24,495.

6. *Property, plant and equipment*

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

	<u>Equipment</u>	<u>Real Estate</u>	<u>Construction in progress</u>	<u>Total</u>
Balance at July 1, 2001	\$ 5,506,333	\$ 16,592,908	\$ 4,989,551	\$ 27,088,792
Additions	170,232	1,676,100	1,511,726	3,358,058
Retirements	(69,469)	-	-	(69,469)
Other adjustments	-	863,634	(863,634)	-
Balance at June 30, 2002	<u>\$ 5,607,096</u>	<u>\$ 19,132,642</u>	<u>\$ 5,637,643</u>	<u>\$ 30,377,381</u>

7. *Deferred Revenues*

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

Municipal license taxes (note C10)	\$ 1,201,353
Unearned lease payment revenues (note C2)	882,094
	<u>\$ 2,083,447</u>

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

8. *Long-term debt*

a. *General obligation bonds*

The Municipality's outstanding general and special obligation bonds at June 30, 2002 amounted to \$7,323,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for payment of principal and interest on the bonds. A sinking fund has been established for the bonds at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of long term debt issued to finance operations of the general fund are made through withholdings to intergovernmental revenues by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2002 follows:

<u>Original Amount</u>	<u>Description</u>	<u>Maturity</u>	<u>Rate</u>	<u>Outstanding</u>
\$ 251,000	Public Improvement Bond	January 1, 2008	5%	\$ 90,000
238,000	Public Improvement Bond	January 1, 2003	5%	15,000
168,000	Public Improvement Bond	January 1, 2017	5%	140,000
690,000	Rental Bond	July 1, 2013	8.50%	460,000
85,000	Public Improvement Notes	July 1, 2008	8%	40,000
125,000	Public Improvement Bond	January 1, 2019	5%	105,000
390,000	General Obligation Bond	July 1, 2020	8%	350,000
175,000	General Obligation Bond	July 1, 2021	8%	145,000
108,000	General Obligation Bond	January 1, 2004	4.875%	35,000
320,700	General Obligation Notes	January 1, 2005	4.750%	152,000
410,000	General Obligation Bond	July 1, 2024	4.5%	395,000
705,000	General Obligation Notes	July 1, 2006	7%	445,000
983,000	General Obligation Bond	January 1, 2024	4.5%	936,000
1,538,000	General Obligation Bond	January 1, 2022	4.750%	1,454,000
425,000	General Obligation Bond	July 1, 2025	8%	415,000
736,000	General Obligation Bond	January 1, 2024	4.75%	736,000
1,410,000	Special Obligation Bond	July 1, 2026	7.5%	1,410,000
				<u>\$ 7,323,000</u>

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

The annual requirements to amortize all long-term obligations outstanding other than other long-term obligations as of June 30, 2002 follows:

June 30	General, Special Obligation Bonds and Notes	
	Principal	Interest
2003	\$ 407,000	\$ 442,264
2004	391,000	420,570
2005	399,000	396,657
2006	365,000	371,980
2007	257,000	348,542
Thereafter	5,504,000	3,306,282
Totals	<u>\$ 7,323,000</u>	<u>\$ 5,286,295</u>

b. *Other long-term debts*

Other long-term debts are comprised of the following:

Bond anticipation notes	\$ 936,509
Compensated absences (note A8)	924,681
Municipal Revenue Collection Center (CRIM) - Prior years property tax doubtful accounts expected to be refinanced through long-term debt	163,711
Property taxes payable to Municipal Revenue Collection Center (CRIM) (note C9)	70,084
	<u>\$ 2,094,985</u>

As of June 30, 2002 the Municipality has issued Bond Anticipation Notes (BAN's) in the amount of \$936,509. The Municipality intends refinancing of the BAN's on a long-term basis. It has demonstrated its intention and its ability to consummate by a financing agreement with the Governmental Development Bank of Puerto Rico (GDB) which does not expire within one year from the date of the combined balance sheet. The refinancing will be done by issuing general obligation bonds of \$1,040,000 through GDB. Accordingly, the amount of \$936,509 will not require the use of available financial resources and has been classified as other long-term debt.

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

As of June 30, 2002 the Municipality has entered into an agreement with the Municipal Revenue Collection Center (CRIM) to refinance the prior years property tax doubtful accounts, which amounted to \$163,711 on a long-term basis. It has demonstrated its intentions and its ability to consummate the transaction by an agreement with the CRIM which does not expire within one year from the date of the combined balance sheet under the provision of Law No. 146 of October 11, 2001. The refinancing will be done through a special loan to be repaid from .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. The financing agreement was authorized by the Municipal Legislature of Hormigueros on Resolution No. 40 of March 18, 2002. Accordingly, the amount of \$163,711 will not require the use of available financial resources and has been classified as other long-term debt.

*c. Changes in general long-term debts*

	Balance at July 1, 2001	Additions	Retirements	Other	Balance at June 30, 2002
General, Special Obligations Bonds and Notes	\$ 5,552,000	\$ 2,146,000	\$ 375,000	\$ -	\$ 7,323,000
Other long-term debts (OLTD)	2,108,285	924,885	202,185	(736,000)	2,094,985
	<u>\$ 7,660,285</u>	<u>\$ 3,070,885</u>	<u>\$ 577,185</u>	<u>\$ (736,000)</u>	<u>\$ 9,417,985</u>

*9. Property taxes*

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Municipal Property Tax Law (Law 83 of August, 1995). The tax levied on property is determined by the Municipal Government based on limits established by the Commonwealth Legislature. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed, with the CRIM by May 15 of each year. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality.

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Property taxes are recorded as revenues by the Municipality in the year of receipt.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advance and amounts assigned (withheld) for the repayment of the bond obligations. As part of the requirement of the new Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities for the fiscal year ended June 30, 2002. This distribution includes advances of property tax and income derived from other subsidies from the state government. For the fiscal year 2000-2001 the Municipality had a net receivable from the CRIM of \$431,721 which was collected during fiscal year 2001-2002. For the fiscal year 2001-2002 the CRIM performed a preliminary liquidation and determined that the Municipality has a net payable to the CRIM of \$70,084. The amount of \$70,084 is recorded in the general long-term debt account group since it will not be paid with current available resources.

10. *Municipal license taxes, licenses and permits*

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

As required by generally accepted accounting principles, a license tax receivable and a corresponding deferred revenue for the same amount is recognized in the general fund based on taxes earned as of June 30, 2002, estimated to be collectible in year 2002-2003, but not currently available for a total amount of \$305,624. In addition, amounts collected in advance, totaling \$895,729 and pertaining to next fiscal period are reported as deferred revenue in the general fund. Total deferred revenue for license taxes amounts to \$1,201,353.

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

11. *Intergovernmental revenues*

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

12. *Retirement plan*

a. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and nonoccupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

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

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

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

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

b. *Funding policy*

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

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

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>2000 Reform</u>
2002	\$ 203,506	\$ 17,253
2001	\$ 224,505	N/A
2000	\$ 219,247	N/A

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

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

13. *Municipal Solid Waste Landfill Closure and Postclosure Care Costs*

The Municipality operates a landfill since 1983. State and federal laws and regulations require the Municipality to perform certain procedures on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability should be recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has not been determined and accounted as required by generally accepted accounting principles as of June 30, 2002.

NOTE D - CONTINGENCIES

1. *Federal and State grants*

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. One of the legal counsels has advised that in one case, related to a political discrimination claim in the U.S. Federal Court of Puerto Rico by former employees, the Jury has pronounced a verdict in favor of the claimants estimating the compensatory damages for approximately \$8,300,000. The Municipality is in process to submit to the U.S. Federal Court in Puerto Rico a request to invalidate the verdict, a request for reduction of compensatory damages, a request to a new trial and, if necessary, will appeal to the Federal Circuit of Boston.

Municipality of Hormigueros

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE D - CONTINGENCIES - Continued

It is the opinion of the Municipality and the legal counsel that the case will be reevaluated based on lack of evidence on discrimination and excessive damage compensation will be reduced. The ultimate outcome on this matter is indeterminable.

In relation with one case not to be covered by insurance, the Municipality accrued \$55,000 in the general fund. There are other cases whereby the Municipality is a defendant or codefendant that will be covered by insurance. Other cases are at discovery stage on which the legal counsels have not determined an outcome and other cases are not covered by insurance. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

**SUPPLEMENTAL INFORMATION**

## Municipality of Hormigueros

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
<u>U.S. Department of H.U.D.</u>			
Major programs:			
Passed through the Office of Commissioner of Municipal Affairs (OCAM):		FD - 30	
Community Development Block Grant - State's Program	14.228	AF - 30 AB - 30 CD - 30	\$ 573,458
Direct Program:			
Section 8 Rental Voucher Program	14.855	N/A	389,412
			<u>962,870</u>
<u>U.S. Department of Agriculture</u>			
Major programs:			
Direct Programs:			
Water and Waste Disposal System for Rural Communities	10.760	N/A	353,344
Community Facilities Loans and Grants	10.766	N/A	532,753
Nonmajor programs:			
Direct Program:			
Rural Housing Preservation Grant	10.433	N/A	38,335
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.588	N/AV	12,987
			<u>937,419</u>
<u>U.S. Department of Health and Human Services</u>			
Nonmajor program:			
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	N/AV	117,638
<u>U.S. Department of Justice</u>			
Nonmajor program:			
Passed through the P.R. Department of Justice			
Public Safety Partnership and Community Policing Grant- COPS	16.710	N/AV	9,337
<u>U.S. Department of Transportation</u>			
Nonmajor program:			
Direct program:			
Federal Transit Capital Improvement Grants	20.500	N/A	139,850
<u>U.S. Department of Commerce</u>			
Nonmajor program:			
Direct program:			
Grants for Public Works and Economic Development	11.300	N/A	46,186
<u>Federal Emergency Management Agency</u>			
Nonmajor program:			
Passed through the Puerto Rico Governor Office: (Governor's Authorized Representative-GAR)			
Public Assistance Grants	83.544	DR-PR-1247	43,472
Total federal awards expenditures			<u>\$ 2,256,772</u>

The accompanying notes are an integral part of this schedule.

Municipality of Hormigueros

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2002

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FEDERAL CFDA NUMBER**

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

**NOTE C - PASS -THROUGH GRANTOR'S NUMBER**

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

Municipality of Hormigueros

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2002

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

Description	Special Revenue Fund	Capital Project Fund
14.228	\$ 573,458	\$ -
14.855	389,412	-
10.760	-	353,344
10.766	-	532,753
10.433	38,335	
10.588	12,987	-
93.575	117,638	-
16.710	9,337	-
20.500	139,850	-
11.300	46,186	
83.544	43,472	-
	<hr/>	<hr/>
Total federal awards expenditures:	1,370,675	886,097
Total state funds awards expenditures and other nonfederal expenditures:	<hr/> 1,384,398	<hr/> 2,012,305
Total expenditures, general purpose financial statements	<hr/> <u>\$ 2,755,073</u>	<hr/> <u>\$ 2,898,402</u>

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

Mayor and Municipal Legislature  
Municipality of Hormigueros  
Hormigueros, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Hormigueros as of and for the year ended June 30, 2002, and have issued our report thereon dated December 10, 2002 in which we have expressed a qualified opinion since the Municipality has not determined and recorded an estimate for the total municipal solid waste landfill closure and postclosure care costs as required by U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether Municipality of Hormigueros's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Municipality of Hormigueros in a separate letter dated December 10, 2002.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered Municipality of Hormigueros's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting 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 does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to management of the Municipality of Hormigueros in a separate letter dated December 10, 2002.

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.



Rodriguez, Liuwma & Toro LLP

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

Mayor and Municipal Legislature  
Municipality of Hormigueros  
Hormigueros, Puerto Rico

*Compliance*

We have audited the compliance of Municipality of Hormigueros 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, 2002. Municipality of Hormigueros'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 Hormigueros's management. Our responsibility is to express an opinion on Municipality of Hormigueros's compliance based on our audit.

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

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

We noted certain immaterial instances of noncompliance that we have reported to management of Municipality of Hormigueros in a separate letter dated December 10, 2002.

*Internal Control Over Compliance*

The management of the Municipality of Hormigueros is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Hormigueros'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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Rodriguez, Lluís E. I. M.P.

Municipality of Hormigueros

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2002

I. Summary of audit results:

**Part I - Financial Statements**

- |   |  |   |
|---|--|---|
| 1. Type of audit report:                                  | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
|   | <input type="checkbox"/> Adverse opinion     | <input type="checkbox"/> Disclaimer of opinion        |
| 2. Reportable conditions reported:                        | <input type="checkbox"/> Yes                 | <input checked="" type="checkbox"/> No                |
| 3. Reportable conditions reported as a material weakness: | <input type="checkbox"/> Yes                 | <input checked="" type="checkbox"/> No                |
| 4. Material noncompliance disclosed:                      | <input type="checkbox"/> Yes                 | <input checked="" type="checkbox"/> No                |

**Part II - Federal Awards**

- |   |   |  |
|---|---|--|
| 1. Reportable conditions reported:  | <input type="checkbox"/> Yes                            | <input checked="" type="checkbox"/> No         |
| 2. Reportable conditions reported as a material weakness:                           | <input type="checkbox"/> Yes                            | <input checked="" type="checkbox"/> No         |
| 3. Type of report on compliance on major programs:                                  | <input checked="" type="checkbox"/> Unqualified opinion | <input type="checkbox"/> Qualified opinion     |
|   | <input type="checkbox"/> Adverse opinion                | <input type="checkbox"/> Disclaimer of opinion |
| 4. Audit findings required to be reported under Section 510(a) of Circular A - 133: | <input type="checkbox"/> Yes                            | <input checked="" type="checkbox"/> No         |

5. Major programs:	<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	14.228	Community Development Block Grant - State's Program
	14.855	Section 8 Rental Voucher Program
	10.760	Water and Waste Disposal System for Rural Communities
	10.766	Community Facilities Loans and Grants

- |   |   |  |
|---|---|--|
| 6. Dollar threshold used to distinguish Type A and Type B programs: | <input checked="" type="checkbox"/> \$300,000 | <input type="checkbox"/> \$3,000,000   |
|   | <input type="checkbox"/> \$30,000,000         |  |
| 7. Low-risk auditee:  | <input type="checkbox"/> Yes                  | <input checked="" type="checkbox"/> No |

Municipality of Hormigueros

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2002

II. Findings and Questioned Costs for Federal Awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	U.S. Department of HUD: Section 8 Rental Voucher Program CFDA 14.871	2001 III-1	Our verification of the internal control procedures over the Section 8 program disclosed deficiencies with respect to the general ledger of the program.	Grantor agency has not cleared this finding. During the application of our audit procedures in the current year no exception was noted with respect to this situation.
2001	U.S. Department of HUD: Section 8 Rental Voucher Program CFDA 14.871	2001 III-2	During our audit we found that the Municipality has not established appropriate procedures to assure that units are inspected annually and inspections are properly documented as required by laws and regulations.	Grantor agency has not cleared this finding. During the application of our audit procedures in the current year no exception was noted with respect to this situation.

