

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE HUMACAO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO**

**INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS**

JUNE 30, 2001

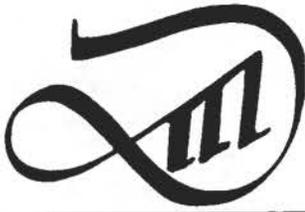
**(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF HUMACAO, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND THE OMB CIRCULAR A-133)**

TABLE OF CONTENTS

	Pages
PART I – Financial:	
Independent Auditors' Report on General-Purpose Combined Financial Statements	2- 3
General-Purpose Combined Financial Statements:	
Combined Balance Sheet – All Fund Types and Accounts Groups	4- 6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	7- 8
Combined Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance – Budget And Actual – General and Debt Service Funds.....	9-10
Notes to the General-Purposes Financial Statements	11-23
PART II – Schedule of Expenditures on Federal Awards and	
Schedule of Expenditures of Federal Awards	25-26
Notes to Schedule of Expenditures of Federal Awards	27
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	28-29
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	30-31
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs.....	33-44
Schedule of Prior Audits' Findings.....	45-46

PART I
FINANCIAL



INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Humacao, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Humacao, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. Other auditor whose report, dated December 12, 2000, expressed a qualified opinion on those statements audited the financial statements of the **Municipality** as of June 30, 2000.

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

The **Municipality** has not maintained a complete and accurate inventory of property, plant and equipment purchased in prior years to June 30, 2001. We were, therefore, unable to apply generally accepted auditing procedures to an examination of the costs of assets included in the General Fixed Assets Account Group.

In our opinion, except for the effect of such adjustment, if any, as might have determined to be necessary had we been able to audit the fixed assets of the general fixed assets account group as described in the preceding paragraph, the general-purpose combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2001, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 13 that were applied to restate the 2000 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

INDEPENDENT AUDITORS' REPORT

Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2001 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
December 7, 2001



MUNICIPALITY OF HUMACAO, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
ASSETS AND OTHER DEBITS:							
Cash (Note 1 E).....	\$18,437,609	\$ 1,964,149	\$ 2,849,996	\$ -	\$ -	\$ -	\$23,251,754
Cash with Fiscal Agent (Note 1 E).....	214,594	756,341	1,301,627	6,684,171	-	-	8,956,733
Receivables:							
Property Taxes (Note 8)	-	-	-	132,787	-	-	132,787
Federal Grants (Note 10).....	-	409,743	91,611	-	-	-	501,354
Others Funds (Note 3).....	1,239,203	1,932,117	3,714,728	-	-	-	6,886,048
Others.....	-	-	-	-	-	-	-
Property, Plant and Equipment (Note 5).....	-	-	-	-	11,292,538	-	11,292,538
Amount Available in Debt Service Fund (Note 7)	-	-	-	-	-	6,763,693	6,763,693
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6).....	-	-	-	-	-	13,493,464	13,493,464
Advance Property Taxes (Note 6).....	-	-	-	-	-	492,779	492,779
Income Tax Withheld Debt (Note 6).....	-	-	-	-	-	889,626	889,626
State Health Insurance Plan Debt (Note 6).....	-	-	-	-	-	1,269,099	1,269,099
Vested Compensated Absence (Note 1 H)	-	-	-	-	-	2,500,197	2,500,197
TOTAL ASSETS AND OTHER DEBITS	<u>\$19,891,406</u>	<u>\$ 5,062,350</u>	<u>\$ 7,957,962</u>	<u>\$ 6,816,958</u>	<u>\$11,292,538</u>	<u>\$25,408,858</u>	<u>\$76,430,072</u>

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts Payable and Accrued Liabilities.....	\$ 331,182	\$ 709,686	\$ 92,823	\$ -	\$ -	\$ -	\$ 1,133,691
Due to:							
Government Units (Note 4).....	230,271	-	-	-	-	-	230,271
Other Funds (Note 3).....	5,646,845	92,475	1,093,463	53,265	-	-	6,886,048
Deferred Revenues:							
Volume of Business Tax (Note 9).....	6,489,692	-	-	-	-	-	6,489,692
Federal Grants (Note 10).....	-	875,647	-	-	-	-	875,647
Long-Term Debts:							
General Obligations Bonds (Note 6).....	-	-	-	-	-	11,909,000	11,909,000
Special Obligations Notes (Note 6).....	-	-	-	-	-	8,348,157	8,348,157
Advance Property Taxes (Note 6).....	-	-	-	-	-	492,779	492,779
Income Tax Withheld Debt (Note 6).....	-	-	-	-	-	889,626	889,626
State Health Insurance Plan (Note 6) ...	-	-	-	-	-	1,269,099	1,269,099
Vested Compensated Absence (Note 1 H).....	-	-	-	-	-	2,500,197	2,500,197
TOTAL LIABILITIES	12,697,990	1,677,808	1,186,286	53,265	-	25,408,858	41,024,207

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
FUND EQUITY (DEFICIT):							
Investment in Property, Plant and Equipment (Note 1 G).....	\$ -	\$ -	\$ -	\$ -	\$11,292,538	\$ -	\$11,292,538
Fund Balance:							
Reserved for Encumbrances (Note 1 K)	1,403,945	-	-	-	-	-	1,403,945
Unreserved (Deficit):							
Designated for Debt Service (Note 1 K).....	-	-	-	6,763,693	-	-	6,763,693
Designated for Subsequent Year Expenditures	-	3,384,542	6,771,676	-	-	-	10,156,218
Undesignated	<u>5,789,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,789,471</u>
TOTAL FUND EQUITY	<u>7,193,416</u>	<u>3,384,542</u>	<u>6,771,676</u>	<u>6,763,693</u>	<u>11,292,538</u>	<u>-</u>	<u>35,405,865</u>
TOTAL LIABILITIES AND FUND EQUITY.....	<u>\$19,891,406</u>	<u>\$ 5,062,350</u>	<u>\$ 7,957,962</u>	<u>\$ 6,816,958</u>	<u>\$11,292,538</u>	<u>\$25,408,858</u>	<u>\$76,430,072</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

MUNICIPALITY OF HUMACAO, PUERTO RICO

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

FOR THE YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8)	\$ 8,693,557	\$ -	\$ -	\$ 3,366,032	\$12,059,589
Volume of Business Taxes (Note 9)	7,189,111	-	-	-	7,189,111
Federal Assistance (Note 10)	-	12,542,727	385,621	-	12,928,348
Intergovernmental (Note 10)	3,496,459	1,520,948	1,232,719	-	6,250,126
Licenses and Permits	2,198,180	-	-	-	2,198,180
Miscellaneous	1,199,067	-	-	-	1,199,067
TOTAL REVENUES	22,776,374	14,063,675	1,618,340	3,366,032	41,824,421
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	1,193,355	-	-	-	1,193,355
General Government	10,761,809	2,029,053	-	-	12,790,862
Public Safety	912,529	-	-	-	912,529
Public Works	3,603,253	6,812	-	-	3,610,065
Culture and Recreation	1,011,911	-	-	-	1,011,911
Sanitation	1,109,946	-	-	-	1,109,946
Human Services and Welfare	2,852,184	7,300,039	-	-	10,152,223
Urban Development	-	3,873,444	7,822,574	-	11,696,018
Capital Outlays	79,170	96,951	-	-	176,121
Amortization of Property Taxes Advances	7,374,374	-	-	-	7,374,374
Debt Service:					
Principal Retirement (Notes 6 and 7)	-	-	-	1,626,874	1,626,874
Interest Payment	-	-	-	1,444,426	1,444,426
TOTAL EXPENDITURES	28,898,531	13,306,299	7,822,574	3,071,300	53,098,704
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,122,157)	757,376	(6,204,234)	(294,732)	(11,274,283)

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO

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

FOR THE YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Advances of Property Taxes (Note 8).....	\$ 7,374,374	\$ -	\$ -	\$ -	\$ 7,374,374
Operating Transfer In	-	-	672,964	368,976	1,041,940
Operating Transfer Out.....	<u>(368,976)</u>	<u>(672,964)</u>	<u>-</u>	<u>-</u>	<u>(1,041,940)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,005,398</u>	<u>(672,964)</u>	<u>672,964</u>	<u>368,976</u>	<u>7,374,374</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	883,241	84,412	(5,531,270)	663,708	3,899,909
Fund Balances, as Restated at Beginning of Year (Note 13)	<u>6,310,175</u>	<u>3,300,130</u>	<u>12,302,946</u>	<u>6,099,985</u>	<u>28,013,236</u>
FUND BALANCES AT END OF YEAR.....	<u>\$ 7,193,416</u>	<u>\$ 3,384,542</u>	<u>\$ 6,771,676</u>	<u>\$ 6,763,693</u>	<u>\$24,113,327</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

MUNICIPALITY OF HUMACAO, PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2001

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 8,693,557	\$ 8,693,557	\$ -	\$ 2,819,861	\$ 3,366,032	\$ 546,171
Volume of Business Taxes	6,700,000	7,189,111	489,111	-	-	-
Intergovernmental.....	3,260,897	3,496,459	235,562	-	-	-
Licenses and Permits	1,720,743	2,198,180	477,437	-	-	-
Miscellaneous.....	1,302,400	1,199,067	(103,333)	-	-	-
TOTAL REVENUES.....	21,677,597	22,776,374	1,098,777	2,819,861	3,366,032	546,171
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	1,533,822	1,353,400	180,422	-	-	-
General Government:						
Finance.....	9,331,105	7,833,836	1,497,269	-	-	-
Personnel	288,474	247,926	40,548	-	-	-
Insurance	216,088	216,088	-	-	-	-
Public Safety.....	1,270,808	927,394	343,414	-	-	-
Public Works	4,198,088	3,835,534	362,554	-	-	-
Culture and Recreation.....	1,188,776	1,036,820	151,956	-	-	-
Sanitation	1,842,465	1,109,946	732,519	-	-	-
Human Services and Welfare.....	3,377,908	3,072,016	305,892	-	-	-
Urban Development.....	-	-	-	-	-	-
Capital Outlays	647,152	79,170	567,982	-	-	-
Debt Services	-	-	-	2,819,861	3,071,300	(251,439)
TOTAL EXPENDITURES AND ENCUMBRANCES	23,894,686	19,712,130	4,182,556	2,819,861	3,071,300	(251,439)
EXCESS OF REVENUES Over (Under) Expenditures and Encumbrances	(2,217,089)	3,064,244	5,281,333	-	294,732	294,732

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2001

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Prior Year Allocation.....	\$ 3,837,706	\$ -	(\$ 3,837,706)	\$ -	\$ -	\$ -
Operating Transfer In (Out)	<u>(368,976)</u>	<u>(368,976)</u>	<u>-</u>	<u>-</u>	<u>368,976</u>	<u>368,976</u>
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses	<u>\$ 1,251,641</u>	2,695,268	<u>\$ 1,443,627</u>	<u>\$ -</u>	663,708	<u>\$ 663,708</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		(1,812,027)			-	
GAAP Adjustment to Revenues		-			-	
Net Changes in Unbudgeted Items		-			-	
Accrual Liability for Certain Debts Not Recognized in Budget.....		-			-	
Fund Balance, as Restated at Beginning of Year (Note 13)		<u>6,310,175</u>			<u>6,099,985</u>	
FUND BALANCE AT END OF YEAR....		<u>\$ 7,193,416</u>			<u>\$ 6,763,693</u>	

The accompanying notes to general-purpose financial statements are an integral part of this statement.

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Humacao, Puerto Rico (Municipality)** was founded in the year 1793, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". 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 the Commonwealth of Puerto Rico. The legislative body consists of 14 legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The general-purpose financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the **Municipality**. This includes the organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has considered all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

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

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criterias applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore, no organizations, activities or functions are required to be included in the reporting entity.

B. Basis of Presentation

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set off self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis 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 "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES c

B. Basis of Presentation (continuation)

GOVERNMENTAL FUNDS

Governmental 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 financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the **Municipality's** governmental fund types:

General Fund – This 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 – This is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Fund – This is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the General Fixed Assets Account Group.

ACCOUNT GROUPS

Account groups is not fund; it does not reflect available financial resources and related liabilities, but is accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the **Municipality's** general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the **Municipality**:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the **Municipality**.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the **Municipality**.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. Governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, monies must be expended on the specific purpose or project before any amounts will be paid to the **Municipality**; therefore, revenues are recognized based upon the expenditures recorded.

For the second type, monies are received in advance and recorded as deferred revenues until the appropriate expenditures are made at which time the revenues are recorded.

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

C. Basis of Accounting (continuation)

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

D. Budgetary Accounting

The Municipality's Annual Budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general-purpose financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Combined Financial Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance – Budget and Actual, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary basis.

The special funds of the Special Revenue Fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the capital projects and special revenue funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

E. Cash and Investment

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 other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. During the fiscal year, any investment in certificate of deposit was made.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and Government Development Bank of the Commonwealth of Puerto Rico. Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements.

F. Inventories

The general, special revenue and capital project funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

G. General Fixed Assets

The general fixed assets account group should be reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the **Municipality**. Public domain (infrastructure) fixed assets consisting of roads, bridges, curbs and gutters and sidewalks, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalize. Such assets normally are immovable and of value only to the **Municipality**. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

H. Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave, or upon retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrues a liability for compensated absences, which meet the following criteria: (1) the **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) Payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by **GASB Number 16**, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

I. 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 Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the **Municipality**.

J. Interfund Transactions

The **Municipality** has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

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

K. Reservations of Fund Balance

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

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

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

L. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund. The general long-term debt account group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

M. Use of Estimates

In preparing financial statements in conformity accounting principles with generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

NOTE 2 CASH AND INVESTMENTS

Investment consists of certificates of deposit. The **Municipality's** cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2001, the market value of investments recorded in Special Revenue Fund approximated its carrying value as follow:

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 CASH AND INVESTMENTS (continuation)

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank	932424(3)	\$ 84,382	3.70%	12-03-01
Popular Bank	2477961	1,667,243	3.75%	12-05-01
Popular Bank	2541392	645,440	3.75%	01-06-02
Popular Bank	2746278	1,465,542	3.75%	12-13-01
Popular Bank	2477961	1,667,243	3.75%	12-05-01
Popular Bank	2477961	1,591,091	3.75%	08-07-01
Popular Bank	932424(5)	1,055,263	3.75%	12-05-01
Santander Bank	5004005173	<u>206,935</u>	3.75%	08-07-01
TOTAL		<u>\$8,383,139</u>		

The investments are distributed by the amounts of \$7,120,941 in the General Fund and \$1,262,935 in the Capital Project Fund.

NOTE 3 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2001 consist of the follows:

	Interfund	
	Receivable	Payable
General:		
Cash Transfers and Operational Loans	\$1,185,938	\$5,646,845
Interest CAE Bank Account	53,265	-
Special Revenue:		
Cash Transfers and Operational Loans	1,932,117	92,475
Capital Project:		
Cash Transfers and Operational Loans	3,714,728	1,093,463
Debt Service:		
Interest in CAE Bank Account	-	53,265
TOTAL	<u>\$6,886,048</u>	<u>\$6,886,048</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2001, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
Retirement System Administration	\$104,245
Water and Sewer Authority	63,045
General Service Administration	8,110
AEELA	28,812
State Insurance Fund	<u>26,059</u>
TOTAL	<u>\$230,271</u>

The Municipality due the amount of \$1,269,099 to State Insurance Health Plan (ASES). This amount should be amortize through retention of the increase in the Electronic LOTO participation received by the Municipality, in accordance with Law Number 29, of July 1, 1997.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

Description	Balance July 1, 2000	Additions	Dispositions and Adjustments	Balance June 30, 2001
Land and Buildings	\$13,458,892	\$ -	\$11,640,350	\$ 1,818,542
Motor Vehicles	5,101,239	39,822	24,223	5,116,838
Machinery and Equipment	<u>3,933,712</u>	<u>446,401</u>	<u>22,955</u>	<u>4,357,158</u>
TOTAL	<u>\$22,493,843</u>	<u>\$ 486,223</u>	<u>\$11,687,528</u>	<u>\$11,292,538</u>

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

NOTE 6 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and notes payable issued to finance the construction and improvements of public facilities. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund (See Note 7). The special obligations long-term note retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality. General obligations bonds and notes payable as of June 30, 2001, are comprised of the following individual issues:

Description	Amount
General Obligations Bonds:	
\$587,000, Series 1982, payable in annual installments ranging from \$10,000 to \$37,000, excluding interest, through January 1, 2007; interest at 5.00%.....	\$ 204,000
\$950,000, Series 1998, payable in semiannual installments ranging from \$165,000 to \$220,000, excluding interest, through July 1, 2002; interest at 5.17%.....	420,000
\$1,099,000, Series 1995, payable in semiannual installments ranging from \$24,000 to \$110,000, excluding interest, through July 1, 2013; interest at 5.45%.....	935,000
\$1,415,000, Series 1998, payable in semiannual installments ranging from \$95,000 to \$195,000, excluding interest, through July 1, 2007; interest at 7.81%.....	1,100,000
\$1,485,000, Series 1995, payable in semiannual installments ranging from \$45,000 to \$155,000, excluding interest, through July 1, 2014; interest at 5.17%.....	1,385,000
\$8,395,000, Series 1998, payable in semiannual installments ranging from \$160,000 to \$775,000, excluding interest, through July 1, 2018; interest at 6.46%.....	<u>7,865,000</u>
Total General Obligations – Bonds	<u>11,909,000</u>

Description	Amount
Special Obligations – Notes:	
\$2,790,000, Series 1993, payable in semiannual installments ranging from \$215,000 to \$430,000, excluding interest, through July 1, 2002; interest at 7.81%.....	\$ 820,000
\$4,115,000, Series 1986, payable in semiannual installments ranging from \$90,000 to \$385,000, excluding interest, through July 1, 2006; interest at 8.20%.....	1,940,000
\$4,786,000, Series 1995, payable in semiannual installments ranging from \$126,000 to \$475,000, excluding interest, through July 1, 2013; interest at 7.81%.....	4,045,000
\$92,204, Series 1987, payable in quarterly installments ranging from \$1,152 to \$4,610, excluding interest at 8.00%, through July 1, 2006 ...	23,052
\$1,333,000, Series 1986, payable in semiannual installments ranging from \$11,000 to \$82,000, excluding interest, through April 1, 2006; interest at 10.00%.....	678,000
\$2,000,000, Series 1990, payable in quarterly installments ranging from \$25,000 to \$100,000, excluding interest, through July 1, 2009; interest at 8.00%.....	<u>842,105</u>
Total Special Obligations Bonds	<u>8,348,157</u>
Total General Obligations Bonds and Notes.....	<u>\$20,257,157</u>

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2001, are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2002	\$ 1,735,874	\$ 1,319,000	\$ 3,054,874
2003	1,872,873	1,228,774	3,101,647
2004	1,312,874	1,110,020	2,422,894
2005	1,404,873	1,009,631	2,414,504
After 2005	<u>13,930,663</u>	<u>5,682,221</u>	<u>19,612,884</u>
TOTAL	<u>\$20,257,157</u>	<u>\$10,349,646</u>	<u>\$30,606,803</u>

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

B. OTHER LONG-TERM DEBTS

The following is a detail of Other Long-Term Debts at year end:

Description	Balance July 1, 2000	New Issues	Retirements and Current Maturates	Balance June 30, 2001
Property Tax Advance – MRCC ...	\$ 492,779	\$ 7,374,373	\$ 7,374,373	\$ 492,779
Unemployment.....	-	1,077,311	187,685	889,626
State Insurance Health Plan.....	-	1,269,099	-	1,269,099
Compensated Absences.....	1,700,238	799,959	-	2,500,197
TOTAL	\$ 2,193,017	\$10,520,742	\$ 7,562,058	\$ 5,151,701

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term obligations for the year ended June 30, 2001:

Description	Balance July 1, 2000	New Issues	Retirements and Current Maturates	Balance June 30, 2001
General.....	\$12,541,000	\$ -	\$ 632,000	\$11,909,000
Special.....	9,255,697	87,333	994,873	8,348,157
Others.....	2,193,017	10,520,742	7,562,058	5,151,701
TOTAL	\$23,989,714	\$10,608,075	\$ 9,188,931	\$25,408,858

NOTE 7 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 8).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 6). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 8 PROPERTY TAXES

The Municipal Revenue Collection Center 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 tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 7.53% for real property and 5.33% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 6.50% and 4.50%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 5.25% and 3.25%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund. The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 7).

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. The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. 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. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

MUNICIPALITY OF HUMACAO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

NOTE 8 PROPERTY TAXES (continuation)

The Municipality records as revenue in the General Fund the exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt. The revenue for the basic contribution over property not exonerated is recorded in the General Fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center.

Due to the fact that collections of non-exonerated property taxes are applied to the advances of property tax sent by the Municipal Revenue Collection Center, they are recorded as amortization of the advance in the General Long-Term Account Group, for Municipal Revenue Collection Center (MRCC), expenditures in the General Fund and recognized as revenue in accordance with GAAP.

The liquidation of Property Taxes of the current fiscal year is preliminary as stated by MRCC. During the fiscal year, the Municipality has receivable of \$132,787 recognized in Debt Service Fund according to measurement revenue recognition focus.

NOTE 9 VOLUME OF BUSINESS TAX

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 Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 10 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consists primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the general fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASB Number 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The Municipality contributes to the system 9.275% of the participating employee's salaries.

On September 24, 1999 amendments to the law were approved, which establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution program to the new savings program. Employees in the savings program may now contribute an additional 10% of their monthly salary, and, if at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2001 was approximately \$641,203. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

<u>Years Of Service</u>	<u>Participant's Age</u>	<u>Pension Benefits</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date.

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the year ended June 30, 2001.

Also, the Head Start Program's employees are covered by a Defined Contribution Plan adopted on February 1, 2001. Substantially all employees are eligible for the Plan on or after the date in which the employees complete three months of continued service. Participants can make a voluntary contribution up to \$50 of its gross compensation, as defined in the Plan; not to exceed the limit established by law. The Head Start Program (Sponsor) contributes \$21.60 per month per employee. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1165 (a) and (e) of the Puerto Rico Internal Revenue Code of 1994 (PRIIRC), as amended. Participants are 100% vested on both participant's and Sponsor's contributions and earnings since being eligible for participation in the Plan.

Upon termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his account or some other annuity alternative benefits. The Net Assets Available for Benefits is \$33,679 accordance to general accepted accounting principles (accrual basis). The Plan's Assets are being managed by National Life Insurance Company Plus (NALIC Plus) under an investment contract. Such assets are being maintained in NALIC Plus's general account and are credited with estimated earnings on the underlying investments through the year, which are adjusted retroactively after determining actual yield on investments. The estimated interest rate on earnings was 7.0%. Assets are also charged for Plan's withdrawals and administration expenses. The investment contract, included on Net Assets Available for Benefits, approximates fair value. The contract has not defined maturity and, accordingly, the fair value is the amount payable on demand.

Although the Sponsor has not expressed any intention to do so, it has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event of the termination of the Plan, reduction or suspension, the employer shall make no further contributions and the accounts of all participants shall remain fully vested and nonforfeitable.

NOTE 12 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. The financial statements do not include adjustment, if any, that could result from the others resolutions of legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material, except for the following matter.

The Federal Emergency Management Administration (FEMA) has determined that waste removal costs in the amounts of \$1,380,983 incurred by the Municipality for removing waste material after Hurricane Georges were not allowed under program regulations. The Municipality has appealed that determination by FEMA. At the present time, FEMA is conducting an audit to verify the validity of its determination of allowability. If the determination stands, the Municipality will have to pay this amount from its own resources. The management of the Municipality understands that they will prevail.

Related to this case, two (2) Plaintiffs (Contractors) are claiming the payment for removing waste material after Hurricanes Hortense and Georges. Plaintiffs claim that they are entitled to \$1,783,973 for waste removal costs and \$1,000,000 to compensate for damage. From the actual posture of the case it is impossible to evaluate fully the likelihood of Plaintiffs prevailing. However, the evidence that support the Plaintiffs position is that they must be paid at least for the cost of work performed.

continue

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 13 BEGINNING FUND BALANCES RESTATEMENT

Beginning Fund Balances Undesignated for General, Special Revenue and Capital Project Funds have been restated by accounting adjustments that affect the Fund Equity of these Governmental Funds, as follows:

	General	Special Revenue	Capital Project
Beginning Fund Balance, At July 1, 2000	\$ 3,818,069	\$ 972,175	\$14,828,795
PR Power Authority Debt as of June 30, 2000 Not Recognized According to Agency Confirmation.....	60,557	-	-
Elimination of Accounts Payable not Supported .	1,805,112	-	-
Unemployment Debt Amortization Related to Prior Year Debt	784,777	-	-
Reclassification of:			
Cash – Deferred Revenue.....	(50,478)	-	-
Special Funds	(65,775)	65,775	-
Legislature Resolutions	-	2,388,906	(2,388,907)
Elimination of Cash Not Supported.....	(9,947)	-	-
Elimination of Interfunds Debt Not Supported.....	136,942	-	(136,942)
Elimination of Receivable Not Supported	(273,458)	(22,350)	-
Reclassification from Fund Balance to Deferred Law Number 52 Debt not Recognized	104,376	(104,376)	-
Beginning Fund Balance As Restated, July 1, 2000.....	<u>\$ 6,310,175</u>	<u>\$ 3,300,130</u>	<u>\$12,302,946</u>

NOTE 14 GASB STATEMENTS NUMBERS 33 AND 34 (AS AMENDED)

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management’s Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government’s financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.
- B. Basic Financial Statements – should include:
 1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:
 - a. Statement of Net Assets
 - b. Statement of Activities
 2. Fund Financial Statements – Fund financial statements for the primary government’s governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
 3. Notes to the Financial Statements – One set of notes for both financial statements.

MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 14 GASB STATEMENTS NUMBERS 33 AND 34 (AS AMENDED)
(continuation)

C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the **Municipality** in fiscal year beginning after June 15, 2002. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

END OF NOTES

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

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

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Department of Education:			
Child and Adult Care Food Program.....	10.558	*	\$ 481,980
U.S. Department of Housing and Urban Development:			
Community Development Block Grant/Entitlement Grants (CDBG)	14.218		3,382,654
Urban Development Action Grants (UDAG)	14.221		319,900
Emergency Shelter Grants Program (ESG).....	14.231		<u>43,694</u>
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		887,827
Section 8 Rental Housing Choice Vouchers	14.871		<u>376,833</u>
Total Section 8 Program			1,264,660
Total Department of Housing and Urban Development			<u>5,010,908</u>
U.S. Department of Justice:			
Local Law Enforcement Block Grants Program.....	16.592		<u>96,000</u>
U.S. Department of Transportation:			
Federal Transit – Capital Investment Grants	20.500		<u>385,621</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant	83.544	FEMA1136DR-PR FEMA1247DR-PR	66,156 <u>659,740</u>
Total Federal Emergency Management Agency (FEMA).....			<u>725,896</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>\$ 6,700,405</u>

* Not Available

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

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$ 6,700,405</u>
U. S. Department of Health and Human Services:			
Pass-Through Elderly Office:			
Special Programs for the Aging – Title III, Part C – Nutritional Services	93.045	*	77,390
Pass-Through Administration of Families and Children:			
Child Care and Development Block Grant	93.575	*	132,616
Early Head Start Program	93.600	*	484,825
Head Start Program	93.600	*	<u>5,533,112</u>
Total Department of Health and Human Services...			<u>6,227,943</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS....			<u>\$12,928,348</u>

* Not Available

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

MUNICIPALITY OF HUMACAO, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Humacao, Puerto Rico (Municipality)** and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The financial transactions are recorded by the **Municipality** in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

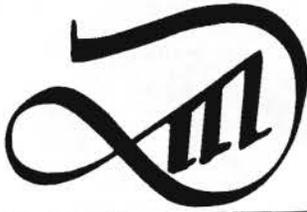
Expenditures of federal awards are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Type as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$12,542,727	\$ 385,621	\$12,928,348
State & Municipal Expenditures	<u>763,572</u>	<u>7,436,953</u>	<u>8,200,525</u>
TOTAL EXPENDITURES	<u>\$13,306,299</u>	<u>\$ 7,822,574</u>	<u>\$21,128,873</u>

NOTE 5 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Humacao, Puerto Rico**

We have audited the financial statements of **Municipality of Humacao, Puerto Rico (Municipality)** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001, which was qualified because we been able to audit the fixed assets of the General Fixed Assets Account Group. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 01-II-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-II-01 and 01-II-02.

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

Page 2

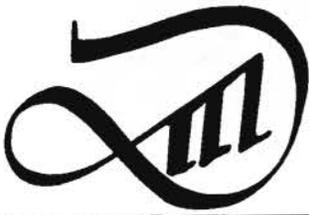
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions mentioned above being material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated December 7, 2001.

This report is intended for the information and use of the management, other within the organization, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
December 7, 2001





CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P.R. 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Humacao, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Humacao, Puerto Rico (Municipality)** 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'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 the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

As described in items 01-III-01 through 01-III-04 in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirements regarding Allowable Cost/Cost Principles and Davis-Bacon Act that are applicable to its Community Development Block Grant Program and Federal Transit – Capital Investment Grants. Compliance with such requirements are necessary, in our opinion, for **Municipality** to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as items 01-III-04 through 01-III-09.

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

Page 2

Internal Control Over Compliance

The management of the **Municipality** 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'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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-III-01 through 01-III-08.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-III-01 through 01-III-04 being material weaknesses.

This report is intended for the information and use of the management, other within the organization, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
December 7, 2001



PART III
FINDINGS AND QUESTIONED COSTS

MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered being material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered being material weaknesses? X Yes None Reported

Type of auditors' report issued on compliance for Major Programs: Unqualified, except for Community Development Block Grant and Federal Transit – Capital Investment Grants that was qualified.

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.550	Child and Adult Care Food Program
14.218	Community Development Block Grant/Entitlement Programs (CDBG)
20.500	Federal Transit – Capital Investment Grants
93.600	Head Start Program
93.600	Early Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs: \$387,850

Auditee qualified as low-risk auditee? Yes X No

continue

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

Section II – Financial Statement Findings

FINDING	NUMBER 01-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During our examination of Municipality's property record and reports we noted the following deficiencies: (1) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balance; (2) there is no adequate internal control procedure to assure the proper valuation and timeliness of recognition of real estate inventory.
CRITERIA	Article 9.002 of State Act Number 81 of August 30, 1991 stated that Municipality should maintain updated property accounting records.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

Section II – Financial Statement Findings

FINDING	NUMBER 01-II-02 (See Finding Number 01-III-03).
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS AND NONCOMPLIANCE
CONDITION	During our audit, we noted that the Municipality did not maintain a current and complete general ledger which adequately identified the source and application of Federal Transit Administration for fiscal year 2000-2001.
CRITERIA	Article 8.010 (c) (2) and (3) of State Act Number 81 of August 30, 1991, stated that Municipality should maintain accurate accounting records and funds controls.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding cash and interfund transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-01																
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT																
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL																
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES																
CONDITION	It was noted in our tests of Municipality's internal control over disbursements process, that vouchers for the following disbursements were not available for our examination:																
	<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Payee</u></th> <th style="text-align: center;"><u>Date</u></th> <th style="text-align: center;"><u>Check Number</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>Colón Peña y Asociados</td> <td>01/10/01</td> <td>3025</td> <td style="text-align: right;">\$ 2,500.00</td> </tr> <tr> <td>Consultec Construction</td> <td>04/18/01</td> <td>3323</td> <td style="text-align: right;"><u>52,397.51</u></td> </tr> <tr> <td style="text-align: center;">TOTAL</td> <td></td> <td></td> <td style="text-align: right;"><u>\$54,897.51</u></td> </tr> </tbody> </table>	<u>Payee</u>	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>	Colón Peña y Asociados	01/10/01	3025	\$ 2,500.00	Consultec Construction	04/18/01	3323	<u>52,397.51</u>	TOTAL			<u>\$54,897.51</u>
<u>Payee</u>	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>														
Colón Peña y Asociados	01/10/01	3025	\$ 2,500.00														
Consultec Construction	04/18/01	3323	<u>52,397.51</u>														
TOTAL			<u>\$54,897.51</u>														
CRITERIA	Subpart C, 24 CFR Section 85.20 (b) (2) (6), stated the standards for the record keeping of the documents that justify the disbursements.																
CAUSE	Municipality did not maintain an adequate control over the record keeping of documents that justify the disbursements.																
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.20 (b) (2) (6).																
RECOMMENDATION	We recommend the implementation of an adequate control over the record keeping of document that justify the disbursements.																
QUESTIONED COSTS	\$54,897.51																
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.																

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-02																				
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT																				
	FEDERAL TRANSIT – CAPITAL INVESTMENT GRANTS (CFDA NO. 20.500) U.S. DEPARTMENT OF TRANSPORTATION																				
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL																				
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES																				
CONDITION	It was noted in our tests of Municipality's internal control over disbursements process, that one (1) Invoice of CDBG and two (2) supporting documents of FTA were not available for our examination.																				
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Payee</u></th> <th style="text-align: center;"><u>Program</u></th> <th style="text-align: center;"><u>Check Number</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>Ferretería del Este</td> <td>CDBG</td> <td>2487</td> <td style="text-align: right;">\$ 8,606.50</td> </tr> <tr> <td>Von Jan Travel</td> <td>FTA</td> <td>1</td> <td style="text-align: right;">1,422.00</td> </tr> <tr> <td>Mediavilla Travel</td> <td>FTA</td> <td>5</td> <td style="text-align: right;"><u>987.58</u></td> </tr> <tr> <td colspan="3" style="text-align: center;">TOTAL</td> <td style="text-align: right;"><u>\$11,016.08</u></td> </tr> </tbody> </table>	<u>Payee</u>	<u>Program</u>	<u>Check Number</u>	<u>Amount</u>	Ferretería del Este	CDBG	2487	\$ 8,606.50	Von Jan Travel	FTA	1	1,422.00	Mediavilla Travel	FTA	5	<u>987.58</u>	TOTAL			<u>\$11,016.08</u>
<u>Payee</u>	<u>Program</u>	<u>Check Number</u>	<u>Amount</u>																		
Ferretería del Este	CDBG	2487	\$ 8,606.50																		
Von Jan Travel	FTA	1	1,422.00																		
Mediavilla Travel	FTA	5	<u>987.58</u>																		
TOTAL			<u>\$11,016.08</u>																		
CRITERIA	OMB Circular A-87 has established that a cost allocable to a particular Federal award must be adequately documented to be allowable. Also Subpart C, 24 CFR 85.20 (b)(2)(6) and Subpart C, 49CFR 18.20 (b)(6) has established that transaction posted on accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.																				
CAUSE	Municipality did not maintain an adequate control over the record keeping of documents that justify the disbursements.																				
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.20 (b)(2)(6) and Subpart C, 49CFR 18.20 (b)(6)																				
RECOMMENDATION	We recommend the implementation of an adequate control over the record keeping of documents that justify the disbursements.																				
QUESTIONED COSTS	\$11,016.08																				
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.																				

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-03
FEDERAL PROGRAM	FEDERAL TRANSIT –CAPITAL INVESTMENT GRANTS (CFDA NO. 20.500) U.S. DEPARTMENT OF TRANSPORTATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of Municipality's internal control over disbursements process, that they don't have a General Ledger.
CRITERIA	OMB Circular A-87 has established that a cost allocable to a particular Federal award must be adequately documented to be allowable. Also Subpart C, 49 CFR 18.20 (b)(2) has established that grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorization, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	Municipality did not maintain an adequate record of all transactions.
EFFECT	Municipality is not in compliance with Subpart C, 49 CFR 18.20 (b)(2).
RECOMMENDATION	We recommend the implementation of an adequate control over the recording process, in accordance with program regulations.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001.

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-04
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT HEAD START PROGRAM (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION OF FAMILIES AND CHILDREN
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	Municipality did not develop a monitoring system to ensure that contractors paid prevailing wages payments according to Department of Labor.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). Also, the Federal Program Manual, Phase II, Section 2, issued by the Office of Commissioner of Municipal Affairs State similar requirements.
EFFECT	Municipality is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
CAUSE	Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the act. The procedures established that the Municipality must interview the employees at the beginning, at a middle stage and at the end of the project.
RECOMMENDATION	We recommend management to develop a monitoring system that includes obtaining prevailing wage rates from the Department of Labor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, obtaining contractor's payrolls and perform the interviews to contractor's and subcontractor's laborers accordingly to the established requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-05
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	The Federal Program Department does not have a property register that include the equipment cost, acquisition date, use and condition of property, grant or agreement, who is the legal owner and percentage of federal participation in costs.
CRITERIA	Code of Federal Regulation, Subpart C, 24 CFR 85.32(d)(1), stated that property records must be maintained that includes a description of the property, serial number or other identification number, the source of property, percentage of Federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of disposal, sale price of property, a physical inventory of the property must be taken and the result reconciled with the property records at least once every two years, respectively.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d)(1).
CAUSE	There is no internal control procedure implemented to assure that property register includes all necessary information, as required by Subpart C, 24 CFR 85.32 (d)(1) of Common Rules.
RECOMMENDATION	We recommend management to implement internal control procedures to assure that a property register of federal program is maintained.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-06
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
	FEDERAL TRANSIT – CAPITAL INVESTMENT GRANTS (CFDA NO. 20.500) U.S. DEPARTMENT OF TRANSPORTATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	The model for construction contracts over \$10,000.00 used by the Municipality did not contain the detailed clauses for compliance with the provisions for termination by the grantee for default, executive order 11246 Equal Employment Opportunity, Davis-Bacon, contract work hours and safety standards, granting access to GAO or other federal agency to books and documents, Energy Policy and Conservation Act as required by the programs.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (b) (1-3) and Subpart C 49 CFR 18.36 (l)(1-13), stated that subgrantee's contract must contain provision in this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (b) (1-3) and Subpart C 49 CFR 18.36 (l)(1-13) of OMB Common Rules.
CAUSE	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures, in order to assure that contractor complies with some requirements.
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-07																				
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT																				
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL																				
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT																				
CONDITION	During our disbursement test we noted that no evidence was found that at least three (3) qualified quotations or formal bid were obtained for three (3) Purchase Orders.																				
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Payee</u></th> <th style="text-align: center;"><u>Date</u></th> <th style="text-align: center;"><u>Check Number</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>Ferretería del Este, Inc.</td> <td>08/02/00</td> <td>2487</td> <td style="text-align: right;">\$ 8,606.50</td> </tr> <tr> <td>Periódico El Vocero</td> <td>03/02/01</td> <td>3231</td> <td style="text-align: right;">1,215.50</td> </tr> <tr> <td>Telepro Caribe, Inc.</td> <td>06/28/01</td> <td>3562</td> <td style="text-align: right;"><u>689.00</u></td> </tr> <tr> <td style="text-align: center;">TOTAL</td> <td></td> <td></td> <td style="text-align: right;"><u>\$10,511.00</u></td> </tr> </tbody> </table>	<u>Payee</u>	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>	Ferretería del Este, Inc.	08/02/00	2487	\$ 8,606.50	Periódico El Vocero	03/02/01	3231	1,215.50	Telepro Caribe, Inc.	06/28/01	3562	<u>689.00</u>	TOTAL			<u>\$10,511.00</u>
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Telepro Caribe, Inc.	06/28/01	3562	<u>689.00</u>																		
TOTAL			<u>\$10,511.00</u>																		
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (c), stated the requirements on procurement procedures.																				
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR Section 85.36 (c).																				
CAUSE	Municipality did not comply with Federal and State Laws regarding procurement procedures.																				
RECOMMENDATION	We recommend management to follow procurement procedures established by Federal and State Laws.																				
QUESTIONED COSTS	None																				
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.																				

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-08
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT
CONDITION	During our disbursement test we noted that a quotation was made after the receipt of service in one (1) order of the disbursement voucher.
CRITERIA	Code of Federal Regulations, 7 CFR Section 3016.60 (b) stated the requirements on procurement procedures.
EFFECT	Municipality is not in compliance with 7 CFR Section 3016.60 (b).
CAUSE	Municipality did not comply with Federal and State Laws regarding procurement procedures.
RECOMMENDATION	We recommend management to follow procurement procedures established by Federal and State Laws.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 01-III-09
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST AND PROVISIONS
CONDITION	During our special test, we observed that the Municipality did not perform the environmental reviews before the obligation of funds.
CRITERIA	Code of Federal Regulations, Subpart K, 24 CFR Section 570.604 stated the requirements on environmental reviews.
EFFECT	Municipality is not in compliance with Subpart K, 24 CFR Section 570.604.
CAUSE	Municipality did not comply with Federal and State Laws regarding environmental reviews established in grant agreements.
RECOMMENDATION	We recommend management to follow environmental reviews established by Federal and State Laws.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

MUNICIPALITY OF HUMACAO, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE YEAR ENDED JUNE 30, 2001

FISCAL YEAR	FINDING NUMBER		CFDA NUMBER	FINDINGS	QUESTIONED COST	COMMENTS
(1) Audit Findings that have been Fully Corrected:						
2000-1998	1	Cash Management	10.558	NONE		System and procedures corrected.
			14.218	NONE		System and procedures corrected.
			93.600	NONE		System and procedures corrected.
2000	5	Period of Availability of funds.	14.218	NONE		System and procedures corrected.
(2) Audit Findings not Corrected or Partially Corrected:						
2000-1998	1	Cash Management	93.575	NONE		The program was not audited as a major program this year.
			83.544	NONE		The program was not audited as a major program this year.
			93.045	NONE		The program was not audited as a major program this year.
			14.855-14.857	NONE		The program was not audited as a major program this year.
			14.241	NONE		The program was not audited as a major program this year.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

MUNICIPALITY OF HUMACAO, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE YEAR ENDED JUNE 30, 2000

FISCAL YEAR	FINDING NUMBER		CFDA NUMBER	FINDINGS	QUESTIONED COST	COMMENTS
(4) Audit findings is no longer valid:						
2000	2	Accounting Records	10.558	NONE		This is a financial statement finding.
1999			14.218	NONE		This is a financial statement finding.
1998			14.856	NONE		This is a financial statement finding.
			14.871	NONE		This is a financial statement finding.
			83.544	NONE		This is a financial statement finding.
			93.045	NONE		This is a financial statement finding.
			93.575	NONE		This is a financial statement finding.
			93.600	NONE		This is a financial statement finding.
	3	Prior Year Audit Finding	10.558	NONE		This is not a compliance finding.
			14.218	NONE		This is not a compliance finding.
			14.231	NONE		This is not a compliance finding.
			14.856	NONE		This is not a compliance finding.
			14.871	NONE		This is not a compliance finding.
			83.544	NONE		This is not a compliance finding.
			93.045	NONE		This is not a compliance finding.
			93.575	NONE		This is not a compliance finding.
	93.600	NONE		This is not a compliance finding.		
2000	4	Interfunds Transactions	14.218	NONE		This a financial statement finding.
			14.856	NONE		This a financial statement finding.
			14.231	NONE		This a financial statement finding.
			83.544	NONE		This a financial statement finding.

END OF SCHEDULE