

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MAUNABO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO**

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

JUNE 30, 2001

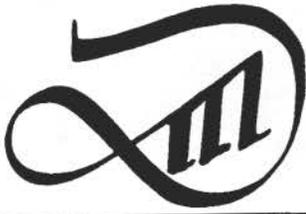
**(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, 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)**

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PART I
FINANCIAL



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Maunabo, 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 paragraphs, 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

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In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 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 6, 2001



MUNICIPALITY OF MAUNABO, 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).....	\$ 1,053,251	\$ 1,267,505	\$ -	\$ -	\$ -	\$ -	\$ 2,320,756
Cash with Fiscal Agent (Note 1 E).....	-	471,160	-	137,684	-	-	608,844
Receivables:							
Property Taxes (Note 8)	-	-	-	2,001	-	-	2,001
Federal Grants (Note 10).....	-	44,921	-	-	-	-	44,921
Others Funds (Note 3).....	612,168	169,425	-	-	-	-	781,593
Others.....	-	189,785	-	-	-	-	189,785
Property, Plant and Equipment (Note 5).....	-	-	-	-	8,191,988	-	8,191,988
Amount Available in Debt Service Fund (Note 7)	-	-	-	-	-	138,486	138,486
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6).....	-	-	-	-	-	14,914	14,914
Advance Property Taxes (Note 6).....	-	-	-	-	-	884,989	884,989
Income Tax Withheld Debt (Note 6).....	-	-	-	-	-	189,217	189,217
Intergovernmental Advance Debt (Note 6)	-	-	-	-	-	743,228	743,228
Unemployment Debt (Note 6).....	-	-	-	-	-	116,806	116,806
Federal Emergency Management Administration (FEMA) Debt (Note 6) .	-	-	-	-	-	190,265	190,265
Vested Compensated Absence (Note 1 H)	-	-	-	-	-	746,874	746,874
TOTAL ASSETS AND OTHER DEBITS	\$ 1,665,419	\$ 2,142,796	\$ -	\$ 139,685	\$ 8,191,988	\$ 3,024,779	\$15,164,667

continue

MUNICIPALITY OF MAUNABO, 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.....	\$ 81,401	\$ 112,103	\$ -	\$ -	\$ -	\$ -	\$ 193,504
Due to:							
Government Units (Note 4).....	219,233	-	-	-	-	-	219,233
Other Funds (Note 3).....	169,425	610,969	-	1,199	-	-	781,593
Deferred Revenues:							
Volume of Business Tax (Note 9).....	73,354	-	-	-	-	-	73,354
Federal Grants (Note 10).....	-	527,779	-	-	-	-	527,779
Long-Term Debts:							
General Obligations Bonds (Note 6).....	-	-	-	-	-	63,400	63,400
Special Obligations Notes (Note 6).....	-	-	-	-	-	90,000	90,000
Advance Property Taxes (Note 6).....	-	-	-	-	-	884,989	884,989
Income Tax Withheld Debt (Note 6).....	-	-	-	-	-	189,217	189,217
Intergovernmental Debt (Note 6).....	-	-	-	-	-	743,228	743,228
Unemployment Debt (Note 6).....	-	-	-	-	-	116,806	116,806
Federal Emergency Management Administration (FEMA) (Note 6).....	-	-	-	-	-	190,265	190,265
Vested Compensated Absence (Note 1 H).....	-	-	-	-	-	746,874	746,874
TOTAL LIABILITIES.....	543,413	1,250,851	-	1,199	-	3,024,779	4,820,242

continue

MUNICIPALITY OF MAUNABO, 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).....	\$ -	\$ -	\$ -	\$ -	\$ 8,191,988	\$ -	\$ 8,191,988
Fund Balance:							
Reserved for Encumbrances (Note 1 K)	72,415	-	-	-	-	-	72,415
Unreserved (Deficit):							
Designated for Debt Service (Note 1 K).....	-	-	-	138,486	-	-	138,486
Designated for Subsequent Years Expenditures	-	891,945	-	-	-	-	891,945
Undesignated	<u>1,049,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,049,591</u>
TOTAL FUND EQUITY.....	<u>1,122,006</u>	<u>891,945</u>	<u>-</u>	<u>138,486</u>	<u>8,191,988</u>	<u>-</u>	<u>10,344,425</u>
TOTAL LIABILITIES AND FUND EQUITY.....	<u>\$ 1,665,419</u>	<u>\$ 2,142,796</u>	<u>\$ -</u>	<u>\$ 139,685</u>	<u>\$ 8,191,988</u>	<u>\$ 3,024,779</u>	<u>\$15,164,667</u>

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

MUNICIPALITY OF MAUNABO, 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)	\$ 333,521	\$ -	\$ -	\$ 73,615	\$ 407,136
Volume of Business Taxes (Note 9)	97,698	-	-	-	97,698
Federal Assistance (Note 10)	-	1,789,202	-	-	1,789,202
Intergovernmental (Note 10)	4,026,840	1,405,194	-	-	5,432,034
Licenses and Permits	108,135	-	-	-	108,135
Miscellaneous	466,756	202,200	-	-	668,956
TOTAL REVENUES	5,032,950	3,396,596	-	73,615	8,503,161
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	552,568	-	-	-	552,568
General Government	1,399,088	-	-	-	1,399,088
Public Safety	79,975	-	-	-	79,975
Public Works	1,587,161	42,877	-	-	1,630,038
Culture and Recreation	277,180	229,221	-	-	506,401
Sanitation	424,398	-	-	-	424,398
Solid Waste Disposal	-	-	-	-	-
Human Services and Welfare	691,125	1,824,213	-	-	2,515,338
Urban Development	-	114,995	1,582,979	-	1,697,974
Capital Outlays	38,079	-	-	-	38,079
Amortization of Property Taxes Advances	137,151	-	-	-	137,151
Debt Service:					
Principal Retirement (Notes 6 and 7)	-	-	-	115,850	115,850
Interest Payment	-	-	-	16,364	16,364
TOTAL EXPENDITURES	5,186,725	2,211,306	1,582,979	132,214	9,113,224
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(153,775)	1,185,290	(1,582,979)	(58,599)	(610,063)

continue

MUNICIPALITY OF MAUNABO, 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).....	\$ 137,151	\$ -	\$ -	\$ -	\$ 137,151
Intergovernmental Advances.....	743,227	-	-	-	743,227
Operating Transfer In	-	51,029	1,582,979	23,180	1,657,188
Operating Transfer Out.....	(74,209)	(1,582,979)	-	-	(1,657,188)
TOTAL OTHER FINANCING SOURCES (USES)	806,169	(1,531,950)	1,582,979	23,180	880,378
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	652,394	(346,660)	-	(35,419)	270,315
Fund Balances, as Restated at Beginning of Year (Note 13)	469,612	1,238,605	-	173,905	1,882,122
FUND BALANCES AT END OF YEAR.....	\$ 1,122,006	\$ 891,945	\$ -	\$ 138,486	\$ 2,152,437

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

MUNICIPALITY OF MAUNABO, 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	\$ 333,521	\$ 333,521	\$ -	\$ -	\$ 73,615	\$ 73,615
Volume of Business Taxes	74,000	97,698	23,698	-	-	-
Intergovernmental.....	4,691,853	4,770,067	78,214	-	-	-
Licenses and Permits	15,600	108,135	92,535	-	-	-
Miscellaneous.....	44,056	465,555	421,499	-	-	-
TOTAL REVENUES.....	5,159,030	5,774,976	615,946	-	73,615	73,615
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature.....	605,249	585,159	20,090	-	-	-
General Government:						
Finance.....	1,243,374	1,238,509	4,865	-	-	-
Personnel	91,833	93,164	(1,331)	-	-	-
Insurance.....	64,085	63,130	955	-	-	-
Public Safety.....	85,894	80,395	5,499	-	-	-
Public Works	1,567,217	1,614,200	(46,983)	-	-	-
Culture and Recreation.....	278,701	278,208	493	-	-	-
Sanitation	446,935	424,398	22,537	-	-	-
Human Services and Welfare.....	701,172	692,977	8,195	-	-	-
Urban Development.....	-	-	-	-	-	-
Capital Outlays	51,389	40,796	10,593	-	-	-
Debt Services	-	-	-	-	132,215	(132,215)
TOTAL EXPENDITURES AND ENCUMBRANCES	5,135,849	5,110,936	24,913	-	132,215	(132,215)
EXCESS OF REVENUES Over (Under) Expenditures and Encumbrances	23,181	664,040	640,859	-	(58,600)	(58,600)

continue

MUNICIPALITY OF MAUNABO, 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		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
OTHER FINANCIAL SOURCES (USES):						
Operating Transfer In (Out)	(\$ 23,181)	(\$ 23,181)	\$ -	\$ -	\$ 23,181	\$ 23,181
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses	\$ -	640,859	\$ 640,859	\$ -	(35,419)	(\$ 35,419)
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		72,415			-	
GAAP Adjustment to Revenues		1,199			-	
Net Changes in Unbudgeted Items		(51,028)			-	
Accrual Liability for Certain Debts Not Recognized in Budget.....		(11,051)				
Fund Balance, as Restated at Beginning of Year (Note 13)		<u>469,612</u>			<u>173,905</u>	
FUND BALANCE AT END OF YEAR....		<u>\$ 1,122,006</u>			<u>\$ 138,486</u>	

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

MUNICIPALITY OF MAUNABO, 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 Maunabo, Puerto Rico (Municipality)** was founded in the year 1799, 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 MAUNABO, 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 of 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.

MUNICIPALITY OF MAUNABO, 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 generally accepted accounting principles of 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 MAUNABO, 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 reflect 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 capitalized. 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 MAUNABO, 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 with accounting principles 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

The Municipality follows the practice of pooling cash of all funds, except from restricted funds held by the Municipal Revenue Collection Center for repayment of principal and interests on general long-term obligations, and federal financial awards. Deposits were with the contracted depository bank in interest bearing accounts, which were secured at balance sheet date by Federal Deposit Insurance Company (FDIC) coverage, up to a maximum of \$100,000. Deposits in excess of \$100,000 are collateralized by bank securities to properly safeguard such funds.

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.

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank	1210475	\$ 278,878	6.10%	09-30-01
Popular Bank.....	1209994	<u>100,000</u>	5.70%	12-26-01
TOTAL		<u>\$ 378,878</u>		

continue

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

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:

	<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>
General:		
Interfund Loans.....	\$610,969	\$169,425
Interest Receivable from Debt Service Fund	1,199	-
Special Revenue:		
Cash System in Current Account.....	169,425	610,969
Capital Project:		
Cash System in Current Account.....	-	-
Debt Services:		
Interest Payable to General Fund.....	-	1,199
TOTAL	<u>\$781,593</u>	<u>\$781,593</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:

	<u>AMOUNT</u>
Puerto Rico Treasury Department	\$ 75,535
Retirement System Administration	37,502
Water and Sewer Authority	85,763
General Service Administration	2,959
AEELA	1,260
Puerto Rico Electric Power Authority	16,214
TOTAL	<u>\$219,233</u>

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

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

<u>Description</u>	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Dispositions and Adjustments</u>	<u>Balance June 30, 2001</u>
Land and Buildings.....	\$ 4,578,419	\$ 1,598,299	\$ -	\$ 6,176,718
Machinery and Equipment.....	1,481,075	534,195	-	2,015,270
TOTAL	<u>\$ 6,059,494</u>	<u>\$ 2,132,494</u>	<u>\$ -</u>	<u>\$ 8,191,988</u>

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:

<u>Description</u>	<u>Amount</u>
General Obligations Bonds:	
\$317,000, Series 1985, payable in quarterly installments of \$3,962.50, excluding interest, through July 1, 2005; interest at 10%....	\$ 63,400
Total General Obligations – Bonds	<u>63,400</u>
Special Obligations – Notes:	
\$130,000, Series 1997, payable in annual installments of \$15,000, excluding variable interest up to 6.71%, through July 1, 2005;.....	90,000
Total General Obligations Bonds and Notes.....	<u>\$ 153,400</u>

continue

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

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (continuation)

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	\$ 30,850	\$ 10,111	\$ 40,961
2003	30,850	7,740	38,590
2004	35,850	5,237	41,087
2005	35,850	2,604	38,454
After 2005	<u>20,000</u>	<u>542</u>	<u>20,542</u>
TOTAL	<u>\$ 153,400</u>	<u>\$ 26,234</u>	<u>\$ 179,634</u>

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 ...	\$1,276,128	\$ 65,851	\$ 456,990	\$ 884,989
Intergovernmental Advances	-	743,228	-	743,228
Property Tax – Treasury Depart. ...	-	208,139	18,922	189,217
Unemployment	-	182,674	65,868	116,806
FEMA	-	190,265	-	190,265
Compensated Absences	<u>461,281</u>	<u>285,593</u>	-	<u>746,874</u>
TOTAL	<u>\$1,737,409</u>	<u>\$1,675,750</u>	<u>\$ 541,780</u>	<u>\$2,871,379</u>

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	\$ 164,250	\$ -	\$ 100,850	\$ 63,400
Special	105,000	-	15,000	90,000
Others	<u>1,737,409</u>	<u>1,675,750</u>	<u>541,780</u>	<u>2,871,379</u>
TOTAL	<u>\$2,006,659</u>	<u>\$1,675,750</u>	<u>\$ 657,630</u>	<u>\$3,024,779</u>

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.

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

NOTE 8 PROPERTY TAXES (continuation)

The tax rate per annum is 6.33% for real property and 4.33% for personal property of which 2.30% of both belongs to the Commonwealth of Puerto Rico and 4.03% and 2.03%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 3.53% and 1.53%, 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 0.50% 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.

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 send by the Municipal Revenue Collection Center, they are record 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 \$2,001 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. 1.00% for financial institutions and savings and loan associations.
- b. 0.30% 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.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

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.

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 \$182,705. 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:

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

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

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.

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.

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, with the exception of one uninsured lawsuit.

In this case, eighty-one (81) plaintiffs (former employees) filed civil rights complaint based on allegations of political discrimination [Civil No. 01-1954 (HL)] in the United States District Court for the District of Puerto Rico. Plaintiffs claim that they are entitled to damages in the amount of \$1,000,000 for each and punitive damages in the amount of \$40,500,000, for a total claim for relief of \$121,500,000. The parties have begun discovery efforts and the court has granted until April 15, 2002 to conclude these matters. Management is vigorously defending the claim and plans to litigate to the end. From the actual posture of the case it is impossible to evaluate fully the likelihood of plaintiffs prevailing. However, the evidence that seems to support the Municipality's position that plaintiffs should not be entitled to relief. Although jury awards cannot be easily estimated, it is our considered estimate that in case of an unfavorable outcome a jury's award will be substantial just by the number of plaintiffs involved.

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 counsels 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.

The Municipality has expended Federal Emergency Management Administration (FEMA) funds in a manner that may infringe certain of its restrictive provisions. Of the federal expenditures incurred, the auditors of the granting authority questioned costs in the amount of \$190,265. This liability is recognized as a long-term debt in the General Long-Term Debt Account Group in Fiscal Year 2000-2001.

continue

MUNICIPALITY OF MAUNABO, 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 Fund have been restated by accounting adjustments that affect the Fund Equity of this Governmental Fund, as follows:

Beginning Balance at July 1, 2000	\$ 384,178
Reclassification of Unemployment Debt recognized as Current Liability instead of Long-Term Debt	182,673
Elimination of contingencies of various lawsuits	31,000
Elimination of interfunds debts not supported	<u>(128,239)</u>
Beginning Balance, as Restated, July 1, 2000	<u>\$ 469,612</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.
- 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.

MUNICIPALITY OF MAUNABO, 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)

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 MAUNABO, 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:			
Farmers Home Administration			
Rural Housing Preservation Grants.....	10.433		\$ 39,687
Pass-Through Department of Education:			
Child and Adult Care Food Program.....	10.558	*	<u>9,984</u>
Total Department of Agriculture.....			<u>49,671</u>
U.S. Department of Housing and Urban Development:			
Pass-Through State – Office of Commissioner Of Municipal Affairs:			
State Block Grant Program (SBGP).....	14.228	00-FD-44 99-FD-44 98-FD-44 97-FD-44 96-FD-44 95-FD-44	<u>1,395,410</u>
Total U.S. Department of Housing and Urban Development.....			<u>1,395,410</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant	83.544	1136DR-PR-095 1247DR-PR-095	<u>114,995</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of Governor – Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	*	25,562
Child Care and Development Block Grant.....	93.575		<u>203,564</u>
Total U. S. Department of Health and Human Services			<u>229,126</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS....			<u>\$1,789,202</u>

* Not Available

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

MUNICIPALITY OF MAUNABO, 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 activities of the **Municipality of Maunabo, Puerto Rico**. 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 **Municipality** reporting entity is defined in Note (1) (A) to the general-purpose financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

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 were 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 GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the **Municipality of Maunabo, Puerto Rico's** Combined Statement of Revenues, Expenditures and Change in Fund Balance – All Governmental Fund Types as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$ 846,504	\$ 942,698	\$1,789,202
State & Municipal Expenditures	<u>1,364,802</u>	<u>640,281</u>	<u>2,005,083</u>
TOTAL EXPENDITURES	<u>\$ 2,211,306</u>	<u>\$1,582,979</u>	<u>\$3,794,285</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 Maunabo, Puerto Rico**

We have audited the financial statements of **Municipality of Maunabo, Puerto Rico (Municipality)** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 6, 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 and the report of others auditors, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 item 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

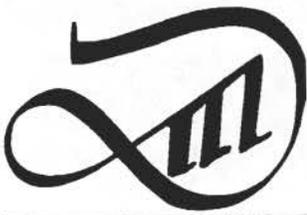
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur 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 of the reportable conditions mentioned above item 01-II-01 being material weakness. 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 6, 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 6, 2001





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 Maunabo, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Maunabo, 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.

In our opinion, 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 an instance of noncompliance with those requirements, which is 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 item 01-III-01.

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 condition is described in the accompanying Schedule of Findings and Questioned Costs as item 01-III-01.

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

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 6, 2001



PART III
FINDINGS AND QUESTIONED COSTS

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

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? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X 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

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
14.228	State Block Grant Program (SBGP)

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

MUNICIPALITY OF MAUNABO, 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 accounted as part of Property, Plant and Equipment account balances were not properly valued; (2) there is not adequate internal control procedures to assure the proper valuation and timeliness recognition of real estate inventory.
CRITERIA	Article 10.002 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.

MUNICIPALITY OF MAUNABO, 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
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS
CONDITION	During our examination of Municipality's cash accounts we noted that the report that summarize the cash receipts and cash disbursements known as Model 4A was not reconciled with the adjusted cash in bank balance.
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.
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 MAUNABO, 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	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	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	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 on every two years, respectively.
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).
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) (1).
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.

END OF SCHEDULE

MUNICIPALITY OF MAUNABO, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE YEAR ENDED JUNE 30, 2001

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(1) Audit Findings that have been fully corrected:					
2000	00-III-03	Municipality accounting records not updated.	14.228	NONE	System and procedures are corrected.
1999	99-III-03	Municipality accounting records not updated.	83.544	NONE	System and procedures are corrected.
(2) Audit Findings not Corrected or Partially Corrected:					
1999	99-III-04	Municipality excess of administrative costs.	83.544	\$10,668	Pending of OCAM determination.
(3) Corrective action taken is significantly different from corrective action previously reported:					
NONE					
(4) Audit findings is no longer valid:					
1998	98-III-07	Municipality accounting records not updated.	83.544	NONE	More than two years have pass since the audit report in which the finding occurred was submitted to the federal clearinghouse. The federal agency is not currently following up the auditee on the audit finding.
1998	98-III-08	Difference in the Administration Cost Category.	83.544	\$11,474	More than two years have pass since the audit report in which the finding occurred was submitted to the federal clearinghouse. The federal agency is not currently following up the auditee on the audit finding. No management decision was issued.
1996	96-III-01	Accounting Records	14.228	NONE	More than two years have pass since the audit report in which the finding occurred was submitted to the federal clearinghouse. The federal agency is not currently following up the auditee on the audit finding.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE YEAR ENDED JUNE 30, 2001

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(4) Audit findings is no longer valid (continuation):					
1993	93-III-03	Lack of documentation to support disbursements.	14.228	NONE	More than two years have pass since the audit report in which the finding occurred was submitted to the federal clearinghouse. The federal agency is not currently following up the auditee on the audit finding.

END OF SCHEDULE

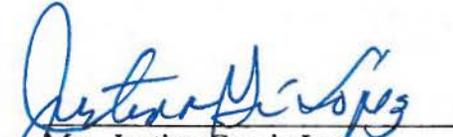
Municipality of Maunabo, Puerto Rico
Corrective Action Plan for the
Single Audit Report of the year ended June 30, 2001

Finding Number	Brief Description	Responsible Individual	Management Views	Corrective Action Plan	Corrective Anticipated Date
01-11-01	<p>a) Construction in progress not properly valued</p> <p>b) Inadequate internal controls to assure proper valuation and timeliness recognition of real estate inventory</p>	Person in charge of the Municipality's property.	We are aware of both situations reported by the independent auditors.	We have requested assistance from the external auditors to correct the situation and to start compliance with the new financial requirements pursuant the GASB number 34, and its amendments.	We expect to begin the correction of these findings as soon as we obtain the quotation from the external auditors and the planned strategies they will follow. Accordingly, the findings are anticipated to be corrected by the end of this natural year.
01-11-02	a) Model 4A was not reconciled with adjusted cash in bank balance.	Accountants' Supervisor.	We agree with the finding disclosed by the independent auditors.	We have instructed the Accountants' Supervisor to start immediately the reconciliation of cash receipts and disbursement records against Model 4A. All bank accounts should balance with this report.	We expect to have completed this procedure by the end of this fiscal year 2001-2002 (June 30, 2002)

Municipality of Maunabo, Puerto Rico
Corrective Action Plan for the
Single Audit Report of the year ended June 30, 2001

Finding Number	Brief Description	Responsible Individual	Management Views	Corrective Action Plan	Corrective Anticipated Date
01-111-01	Federal Programs Department does not have a property register that include the equipment cost, acquisition date, use and condition of equipment, who is the legal owner and percentage of Federal participation in costs.	Director of Federal Programs and person in charge of the Municipality's property.	We are not totally in agreement with this finding since the person in charge of the property is actually accounting for all municipality's equipments pursuant the requirements of each grantor.	We will revise the procedures being followed by the person in charge of the properties in order to determine whether the procedures are all inclusive (ie. Records are being filled out completely). Cooperation from the Federal Programs Director will be requested to assure full compliance with this requirement.	We expect to have completed this procedure by the end of this fiscal year 2001-2002 (June 30, 2002)

The information stated above has been determined to be accurate based upon information available as of March 12, 2002.



 Mrs. Justina Garcia Lopez
 Finance Director

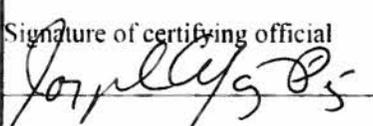
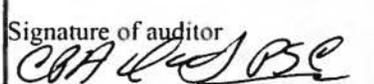
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Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
RETURN TO: Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 26172

12/27/01

Part I: GENERAL INFORMATION	
1. Fiscal year ending date for this submission (mm/dd/yyyy) 06/30/2001	2. Type of A-133 audit <input checked="" type="radio"/> Single audit
3. Audit period covered <input checked="" type="radio"/> Annual	4. Date received by clearinghouse CENSUS USE ONLY
5. Employer Identification Number (EIN) a. Auditee EIN 660433521	b. Are multiple EINS covered in this report? <input checked="" type="radio"/> No
6. AUDITEE INFORMATION	7. AUDITOR INFORMATION
a. Auditee name MUNICIPALITY OF MAUNABO	a. Auditor name CPA DIAZ-MARTINEZ, PSC
b. Auditee address (Number and street) P.O. BOX 8	b. Auditor address (Number and street) P.O. BOX 8369
City MAUNABO	City CAGUAS
State Zip Code PR 00707 -	State Zip Code PR 00726 - 8369
c. Auditee contact Name JORGE MARQUEZ PEREZ	c. Auditor contact Name JOSE E. DIAZ-MARTINEZ
Title MAYOR	Title PRESIDENT
d. Auditee contact telephone (787) 861 - 2770	d. Auditor contact telephone (787) 746 - 0510
e. Auditee contact FAX (Optional) (787) 861 - 1124	e. Auditor contact FAX (Optional) (787) 746 - 0525
f. Auditee contact E-mail (Optional)	f. Auditor contact E-mail (Optional)
g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.	g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The Auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.
Signature of certifying official 	Date 01 / 09 / 02
Name/Title of certifying official JORGE MARQUEZ PEREZ, MAYOR	Signature of auditor 
	Date 01 / 08 / 02

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 26172

Part I: GENERAL INFORMATION - Continued		
8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (x) one box)		
<input checked="" type="radio"/> No - SKIP to Part II, Item 1		
9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (x) one box) However, if cognizance has been reassigned, see instructions		
Part II: FINANCIAL STATEMENTS (To be completed by auditor)		
1. Type of audit report (Mark (x) one box)		
<input checked="" type="radio"/> Qualified opinion		
2. Is a "going concern" explanatory paragraph included in the audit report?		
<input checked="" type="radio"/> No		
3. Is a reportable condition disclosed?		
<input checked="" type="radio"/> Yes		
4. Is any reportable condition reported as a material weakness?		
<input checked="" type="radio"/> Yes		
5. Is a material noncompliance disclosed?		
<input checked="" type="radio"/> No		
Part III: FEDERAL PROGRAMS (To be completed by auditor)		
1. Type of audit report on major program compliance		
<input checked="" type="checkbox"/> Unqualified opinion		
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)		
<input checked="" type="radio"/> No		
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ .520(b)) Round to the nearest dollar. \$300000.00		
4. Did the auditee qualify as a low-risk auditee? (§ .530)		
<input checked="" type="radio"/> No		
5. Is a reportable condition disclosed for any major program? (§ .510(a)(1))		
<input checked="" type="radio"/> Yes		
6. Is any reportable condition reported as a material weakness? (§ .510(a)(1))		
<input checked="" type="radio"/> No		
7. Are any known questioned costs reported? (§ .510(a)(3) or (4))		
<input checked="" type="radio"/> No		
8. Was a Summary Schedule of Prior Audit Findings prepared? (§ .315(b))		
<input checked="" type="radio"/> Yes		
9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to direct funding. (Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.		
00	<input checked="" type="checkbox"/>	None
In addition, one copy each of the reporting package is required for:		
1the Federal Audit Clearinghouse archives	
0and, if not marked above, the cognizant agency (if identified in Part I, Item 9)	
1Total number of reporting packages to be submitted	

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 26172

Part III: FEDERAL PROGRAMS Continued									
10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
Row	10a. CFDA Number		10b. Research and development	10c. Name of Federal Program	10d. Amount expended in Whole Numbers	10e. Direct Award	10f. Major program	11a. Type of compliance requirement (3)	11b. Audit finding reference # (s) (4)
	Federal Agency Prefix (1)	Extension (2)							
1	10.	433	<input checked="" type="checkbox"/> N	RURAL HOUSING PRESERVATION GRANT	\$ 39687 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
2	10.	558	<input checked="" type="checkbox"/> N	CHILD AND ADULT CARE FOOD PROGRAM	\$ 9984 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
3	14.	228	<input checked="" type="checkbox"/> N	STATE BLOCK GRANT PROGRAM	\$ 1395410 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y	F	01-III-01
4	83.	544	<input checked="" type="checkbox"/> N	PUBLIC ASSISTANCE GRANT	\$ 114995 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
5	93.	044	<input checked="" type="checkbox"/> N	SPECIAL PROGRAM OF AGING TITLE III PART B	\$ 25562 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
6	93.	575	<input checked="" type="checkbox"/> N	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 203564 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
Computer Generated Total Federal Awards Expended:				\$ 1789202					
TOTAL FEDERAL AWARDS EXPENDED:				\$1789202					

*Footnotes for Part 3 - Item 10 and Item 11

- See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
- Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available.
- Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weakness), questioned costs, fraud, and other items reported under §.510 (a)) reported for each Federal program.

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

4. N/A for None.