

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

MUNICIPIO DE MAUNABO
AUDITORIA 2001-02
30 DE JUNIO DE 2002

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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UNIDAD DE CORREO

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

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

JUNE 30, 2002

**(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, 2002
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND THE OMB CIRCULAR A-133)

TABLE OF CONTENTS

	Pages
PART I – Financial:	
Independent Auditors' Report on General-Purpose Combined Financial Statements	2- 3
General-Purpose Combined Financial Statements:	
Combined Balance Sheet – All Fund Types and Accounts Groups	4- 6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types.....	7- 8
Combined Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance – Budget And Actual – General and Debt Service Funds	9-10
Notes to the General-Purposes Financial Statements	11-20
PART II – Schedule of Expenditures on Federal Awards and	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
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	24-25
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	26-27
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	29-33
Schedule of Prior Audits' Findings	34

PART I
FINANCIAL



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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 Fiscal Year Ended June 30, 2002, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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, 2002. 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, 2002, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2002 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.

INDEPENDENT AUDITORS' REPORT

Page 2

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
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 12, 2002



MUNICIPALITY OF MAUNABO, PUERTO RICO

COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	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).....	\$ 280,066	\$ 1,756,519	\$ -	\$ -	\$ -	\$ -	\$ 2,036,585
Cash with Fiscal Agent (Note 1 E).....	-	19,180	-	193,551	-	-	212,731
Receivables:							
Property Taxes (Note 8).....	-	-	-	1,123	-	-	1,123
Federal Grants (Note 10).....	-	154,581	-	-	-	-	154,581
Others Funds (Note 3).....	911,731	66,284	-	-	-	-	978,015
Others.....	-	302,822	-	-	-	-	302,822
Property, Plant and Equipment (Note 5)	-	-	-	-	8,687,224	-	8,687,224
Amount Available in Debt Service Fund (Note 7).....	-	-	-	-	-	194,170	194,170
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6).....	-	-	-	-	-	358,380	358,380
Advance Property Taxes (Note 6).....	-	-	-	-	-	1,593,825	1,593,825
Income Tax Withheld Debt (Note 6).....	-	-	-	-	-	170,295	170,295
Intergovernmental Advance Debt (Note 6).....	-	-	-	-	-	-	-
Unemployment Debt (Note 6).....	-	-	-	-	-	52,858	52,858
Federal Emergency Management Administration (FEMA) Debt (Note 6).....	-	-	-	-	-	190,265	190,265
Claims and Judgments.....	-	-	-	-	-	215,000	215,000
Vested Compensated Absence (Note 1 I).....	-	-	-	-	-	841,167	841,167
TOTAL ASSETS AND OTHER DEBITS.....	\$ 1,191,797	\$ 2,299,386	\$ -	\$ 194,674	\$ 8,687,224	\$ 3,615,960	\$15,989,041

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	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	\$ 73,986	\$ 64,001	\$ -	\$ -	\$ -	\$ -	\$ 137,987
Due to:							
Government Units (Note 4)	73,948	-	-	-	-	-	73,948
Other Funds (Note 3)	66,284	911,227	-	504	-	-	978,015
Deferred Revenues:							
Volume of Business Tax (Note 9)	63,417	-	-	-	-	-	63,417
Federal Grants (Note 10)	-	357,231	-	-	-	-	357,231
Long-Term Debts:							
General Obligations Bonds (Note 6)	-	-	-	-	-	477,550	477,550
Special Obligations Notes (Note 6)	-	-	-	-	-	75,000	75,000
Advance Property Taxes (Note 6)	-	-	-	-	-	1,593,825	1,593,825
Income Tax Withheld Debt (Note 6)	-	-	-	-	-	170,295	170,295
Unemployment Debt (Note 6)	-	-	-	-	-	52,858	52,858
Federal Emergency Management Administration (FEMA) (Note 6)	-	-	-	-	-	190,265	190,265
Claims and Judgments	-	-	-	-	-	215,000	215,000
Vested Compensated Absence (Note 1 I)	-	-	-	-	-	841,167	841,167
TOTAL LIABILITIES	<u>277,635</u>	<u>1,332,459</u>	<u>-</u>	<u>504</u>	<u>-</u>	<u>3,615,960</u>	<u>5,226,558</u>

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

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

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
FUND EQUITY:							
Investment in Property, Plant and Equipment (Note 1 H)	\$ -	\$ -	\$ -	\$ -	\$ 8,687,224	\$ -	\$ 8,687,224
Fund Balance:							
Reserved for Encumbrances (Note 1 L)	287,060	-	-	-	-	-	287,060
Unreserved:							
Designated for Debt Service (Note 1 L)	-	-	-	194,170	-	-	194,170
Designated for Subsequent Years Expenditures	-	966,927	-	-	-	-	966,927
Undesignated	627,102	-	-	-	-	-	627,102
TOTAL FUND EQUITY	<u>914,162</u>	<u>966,927</u>	<u>-</u>	<u>194,170</u>	<u>8,687,224</u>	<u>-</u>	<u>10,762,483</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,191,797</u>	<u>\$ 2,299,386</u>	<u>\$ -</u>	<u>\$ 194,674</u>	<u>\$ 8,687,224</u>	<u>\$ 3,615,960</u>	<u>\$15,989,041</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 FISCAL YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8).....	\$ 402,969	\$ -	\$ -	\$ 78,402	\$ 481,371
Volume of Business Taxes (Note 9).....	88,511	-	-	-	88,511
Federal Assistance (Note 10).....	-	1,649,158	-	-	1,649,158
Intergovernmental (Note 10).....	4,436,306	1,352,996	-	-	5,789,302
Licenses and Permits.....	199,575	-	-	-	199,575
Miscellaneous.....	51,705	197,628	-	-	249,333
TOTAL REVENUES	5,179,066	3,199,782	-	78,402	8,457,250
EXPENDITURES					
Current:					
Mayor and Municipal Legislature.....	694,756	-	-	-	694,756
General Government.....	1,301,518	1,042,366	-	-	2,343,884
Public Safety.....	118,219	38,010	-	-	156,229
Public Works.....	1,638,162	-	-	-	1,638,162
Culture and Recreation.....	268,018	197,325	-	-	465,343
Sanitation.....	434,933	-	-	-	434,933
Solid Waste Disposal.....	-	3,749	-	-	3,749
Human Services and Welfare.....	765,094	291,382	-	-	1,056,476
Urban Development.....	-	1,123,862	310,823	-	1,434,685
Capital Outlays.....	144,614	547,284	-	-	691,898
Amortization of Property Taxes Advances.....	118,154	-	-	-	118,154
Debt Service:					
Principal Retirement (Notes 6 and 7).....	-	-	-	35,216	35,216
Interest Payment.....	-	-	-	9,098	9,098
TOTAL EXPENDITURES	5,483,468	3,243,978	310,823	44,314	9,082,583
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(304,402)	(44,196)	(310,823)	34,088	(625,333)

MUNICIPALITY OF MAUNABO, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Advances of Property Taxes (Note 8).....	\$ 118,154	\$ -	\$ -	\$ -	\$ 118,154
Proceed of Bond.....	430,000	-	-	-	430,000
Operating Transfer In	-	430,000	310,823	21,596	762,419
Operating Transfer Out	<u>(451,596)</u>	<u>(310,823)</u>	<u>-</u>	<u>-</u>	<u>(762,419)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>96,558</u>	<u>119,177</u>	<u>310,823</u>	<u>21,596</u>	<u>548,154</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources.....	(207,844)	74,982	-	55,684	(77,178)
Fund Balances at Beginning of Year.....	<u>1,122,006</u>	<u>891,945</u>	<u>-</u>	<u>138,486</u>	<u>2,152,437</u>
FUND BALANCES AT END OF YEAR.....	<u>\$ 914,162</u>	<u>\$ 966,927</u>	<u>\$ -</u>	<u>\$ 194,170</u>	<u>\$ 2,075,259</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
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 402,969	\$ 402,969	\$ -	\$ 58,095	\$ 78,402	\$ 20,307
Volume of Business Taxes	82,000	88,511	6,511	-	-	-
Intergovernmental	4,447,529	4,436,306	(11,223)	-	-	-
Licenses and Permits	162,000	199,575	37,575	-	-	-
Miscellaneous	116,487	51,705	(64,782)	-	-	-
TOTAL REVENUES	5,210,985	5,179,066	(31,919)	58,095	78,402	20,307
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	753,740	735,130	18,610	-	-	-
General Government:						
Finance	1,427,277	1,308,526	118,751	-	-	-
Personnel	101,704	101,004	700	-	-	-
Insurance	77,683	63,854	13,829	-	-	-
Public Safety	118,885	118,219	666	-	-	-
Public Works	1,635,958	1,655,638	(19,680)	-	-	-
Culture and Recreation	269,178	268,732	446	-	-	-
Sanitation	470,840	468,028	2,812	-	-	-
Human Services and Welfare	802,004	780,742	21,262	-	-	-
Urban Development	-	-	-	-	-	-
Capital Outlays	175,227	162,467	12,760	-	-	-
Debt Services	-	-	-	58,095	44,314	13,781
TOTAL EXPENDITURES AND ENCUMBRANCES	5,832,496	5,662,340	170,156	58,095	44,314	13,781
EXCESS OF REVENUES Over (Under)						
Expenditures and Encumbrances	621,511	(483,274)	(138,237)	-	34,088	34,088

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 FISCAL YEAR ENDED JUNE 30, 2002

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Allocation of Prior Year Fund Balance	\$ 643,107	-	(643,107)	\$ -	\$ -	\$ -
Operating Transfer In (Out)	(21,596)	(\$ 21,596)	\$ -	-	21,596	21,596
Excess of Revenues and Other Sources (Uses) Over Expenditures and Other Uses	\$ -	(504,870)	(\$ 504,870)	\$ -	55,684	\$ 55,684
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		214,645			-	
GAAP Adjustment to Revenues		-			-	
Net Changes in Unbudgeted Items		-			-	
Accrual Liability for Certain Debts Not Recognized in Budget		(82,381)			-	
Fund Balance at Beginning of Year		1,122,006			138,486	
FUND BALANCE AT END OF YEAR		\$ 914,162			\$ 194,170	

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 FISCAL YEAR ENDED JUNE 30, 2002

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, fiscal dependency of the potential component units 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 criteria 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**.

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.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

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

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

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

ACCOUNT GROUPS

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

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

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

C. Basis of Accounting

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

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys 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, moneys 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.

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.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

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.

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.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the 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. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with the law.

F. Receivable

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

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

G. 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.

H. General Fixed Assets

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the Municipality. Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. 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.

I. 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 (3) 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.

J. 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.

K. 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.

L. 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 purchase 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.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

M. 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.

N. 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	5.00%	09-30-06
Popular Bank	1209994	<u>100,000</u>	2.60%	12-26-02
TOTAL		<u>\$ 378,878</u>		

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, 2002 consist of the follows:

	INTERFUND	
	RECEIVABLE	PAYABLE
General:		
Interfund Loans	\$911,227	\$ 66,284
Interest Receivable from Debt Service Fund	504	-
Special Revenue:		
Cash System in Current Account	66,284	911,227
Capital Project:		
Cash System in Current Account	-	-
Debt Services:		
Interest Payable to General Fund	-	504
TOTAL	<u>\$978,015</u>	<u>\$978,015</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2002, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	AMOUNT
Puerto Rico Treasury Department	\$ 9,645
Retirement System Administration	37,585
Water and Sewer Authority	4,369
General Service Administration	4,258
AEELA	1,877
Puerto Rico Electric Power Authority	<u>16,214</u>
TOTAL	<u>\$ 73,948</u>

MUNICIPALITY OF MAUNABO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

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

DESCRIPTION	BALANCE JULY 1, 2001	ADDITIONS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2002
Land and Buildings.....	\$ 6,176,718	\$ 1,598,299	\$ -	\$ 6,176,718
Machinery and Equipment	<u>2,015,270</u>	<u>569,422</u>	<u>74,186</u>	<u>2,510,506</u>
TOTAL	<u>\$ 8,191,988</u>	<u>\$ 569,422</u>	<u>\$ 74,186</u>	<u>\$ 8,687,224</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, 2002, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$317,000, Series 1985, payable in quarterly installments of \$3,962.50, excluding interest at 10.00%, through July 1, 2005.....	\$ 75,000
\$430,000, Series 2002, payable in annual installments ranging from \$15,000, excluding variable interest up to 6.00%, through July 1, 2008.....	<u>430,000</u>
Total General Obligations Bonds.....	<u>505,000</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.....	<u>47,550</u>
Total General Obligations Bonds and Notes	<u>\$ 552,550</u>

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2002, are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2003	\$ 75,850	\$ 28,644	\$ 104,494
2004	90,850	27,082	117,932
2005	95,850	20,999	116,849
2006	80,000	14,942	94,942
After 2006	<u>210,000</u>	<u>19,500</u>	<u>229,500</u>
TOTAL	<u>\$ 552,550</u>	<u>\$ 111,167</u>	<u>\$ 663,717</u>

B. OTHER LONG-TERM DEBTS

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

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2002
Property Tax Advance – MRCC.....	\$ 884,989	\$ 708,836	\$ -	\$1,593,825
Intergovernmental Advances	743,228	-	743,228	-
Property Tax – Treasury Depart.....	189,217	-	18,922	170,295
Unemployment.....	116,806	-	63,948	52,858
FEMA.....	190,265	-	-	190,265
Claims And Judgments	-	215,000	-	215,000
Compensated Absences	<u>746,874</u>	<u>94,293</u>	-	<u>841,167</u>
TOTAL	<u>\$2,871,379</u>	<u>\$ 1,018,129</u>	<u>\$ 826,098</u>	<u>\$3,063,410</u>

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term obligations for the Fiscal Year Ended June 30, 2002:

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2002
General.....	\$ 63,400	\$ 430,000	\$ 15,850	\$ 477,550
Special.....	90,000	-	15,000	75,000
Others.....	<u>2,871,379</u>	<u>1,018,129</u>	<u>826,098</u>	<u>3,063,410</u>
TOTAL	<u>\$3,024,779</u>	<u>\$1,448,129</u>	<u>\$ 841,098</u>	<u>\$3,615,960</u>

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 7 DEBT RETIREMENT

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

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

NOTE 8 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

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

The tax rate per annum is 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 exemption 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 \$1,123 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.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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 2002 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 total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2002 was approximately **\$192,403**. 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.

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 Fiscal Year Ended June 30, 2002.

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. At June 30, 2002, only nine (9) plaintiffs remained in the case; all other requested voluntary dismissal. The parties engaged in meaningful negotiations reached to settle the case for the amount of \$215,000. The Municipal Legislature reviewed and considered the terms of the settlement, and approved that the Mayor be authorized to enter into said agreement.

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 2001-2002.

NOTE 14 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39

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.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO
NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 14 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39 (continuation)

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.

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.

On May 2002, GASB No. 39 was issued that amend GASB 14 by established additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2003. Earlier application is encouraged.

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 FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>\$ 7,606</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	01-FD-44 00-FD-44 99-FD-44 98-FD-44 97-FD-44 96-FD-44 95-FD-44	<u>1,123,957</u>
U.S. Department of Justice:			
Local Law Enforcement Block Grant	16.592		<u>38,010</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>218,494</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of Governor – Elderly Office:			
Child Care and Development Block Grant	93.575	N/AV	<u>261,091</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$1,649,158</u>

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 FISCAL YEAR ENDED JUNE 30, 2002

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 PASS THROUGH GRANTOR'S NUMBER

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

NOTE 5 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

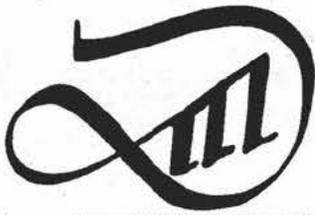
Federal financial assistance expenditures are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Change in Fund Balance – All Governmental Fund Types as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$1,430,664	\$ 218,494	\$1,649,158
State & Municipal Expenditures	<u>1,732,371</u>	<u>92,329</u>	<u>1,824,700</u>
TOTAL EXPENDITURES	<u>\$3,163,035</u>	<u>\$ 310,823</u>	<u>\$3,473,858</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



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

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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 Fiscal Year Ended June 30, 2002, and have issued our report thereon dated November 12, 2002, 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 condition is described in the accompanying Schedule of Findings and Questioned Costs as item 02-II-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 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 November 12, 2002.

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

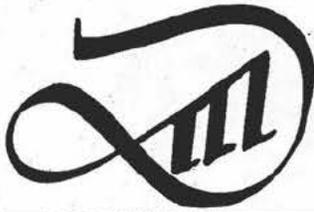
Page 2

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
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 12, 2002





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**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 Fiscal Year Ended June 30, 2002. 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 Fiscal Year Ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-III-02 and 02-III-03.

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.

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

Page 2

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-III-01 through 02-III-03.

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 conditions described above are not material weaknesses.

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


CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 12, 2002



PART III

FINDINGS AND QUESTIONED COSTS

MUNICIPALITY OF MAUNABO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

● Reportable condition(s) identified? Yes None Reported

● Material weakness (es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

● Reportable condition(s) identified? Yes None Reported

● Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

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

MUNICIPALITY OF MAUNABO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-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. <i>(This is a prior year finding.)</i>
CRITERIA	Article 10.002 of State Act Number 81 of August 30, 1991 stated that Municipality should maintain updated property accounting records.
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.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
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 FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-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	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of Municipality's internal control over disbursement process, that vouchers related supporting documents were no stamp as paid.
CRITERIA	Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart.
CAUSE	There are no adequate internal control procedures implemented to assure this compliance.
EFFECT	Liabilities could be paid twice by the Municipality . The Municipality is not in compliance with CFR 24, Section 570.89 (d) (1).
RECOMMENDATION	Municipality should implemented adequate procedures to ensure that all supporting documents were stamped as paid in order to assure compliance with this requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF MAUNABO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-02
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	CASH MANAGEMENT – EXCESS CASH BALANCES
CONDITION	Municipality held high cash balances according to the bank statements. This means that federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.
CRITERIA	Code of Federal Regulations, Subpart I, 24 CFR Section 570.489 (c) (1), stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement for activities, according with Treasury Circular 1075.
CAUSE	The Federal Program Department did no maintain appropriate cash management procedures in order to keep low cash balances.
EFFECT	It could be understood that Federal Program and Finance Departments are requesting funds in excess of the immediate expenditures incurred.
RECOMMENDATION	We recommend to management to revised their bank account balances in order to minimize the amounts held on the accounts.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF MAUNABO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-03
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 FISCAL YEAR ENDED JUNE 30, 2002

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
-------------	----------------	---------	-------------	-----------------	----------

(1) Audit Findings that have been fully corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

2001	01-III-01	Property, Plant and Equipment – Subsidiary records.	12.228	NONE	***
1999	99-III-04	Municipality excess of administrative costs.	83.544	\$10,668	Pending of Pass-Through Agency determination.

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates On or After January 1, 2001**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." **RETURN TO** Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

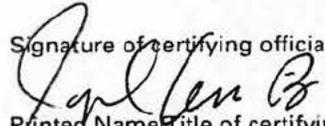
PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

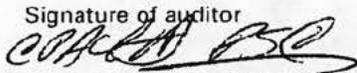
1. Fiscal period ending date for this submission Month Day Year Fiscal Period End Dates Must Be On or After January 1, 2001 06 / 30 / 2002		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - Months 2 <input type="checkbox"/> Biennial		FEDERAL GOVERNMENT USE ONLY 4. Date received by Federal clearinghouse	
5. Employer Identification Number (EIN) a. Auditee EIN 6 6 0 4 3 3 5 2 1		b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)	

6. AUDITEE INFORMATION a. Auditee name MUNICIPALITY OF MAUNABO b. Auditee address (Number and street) PO BOX 8 City MAUNABO State ZIP + 4 Code PR 0 0 7 0 7 - 0 0 0 8		7. AUDITOR INFORMATION (To be completed by auditor) a. Auditor name CPA DIAZ-MARTINEZ, PSC b. Auditor address (Number and street) PO BOX 8369 City CAGUAS State ZIP + 4 Code PR 0 0 7 2 6 - 8 3 6 9	
c. Auditee contact Name JORGE MARQUEZ PEREZ Title MAYOR		c. Auditor contact Name JOSE E. DIAZ-MARTINEZ 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) CPADIAZMARTINEZ@HOTMAIL.COM	

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.

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

Signature of certifying official

 Date Month Day Year
 01 / 10 / 03
 Printed Name/Title of certifying official
JORGE MARQUEZ PEREZ, MAYOR

Signature of auditor

 Date Month Day Year
 12 / 28 / 2002

DIVISION OF RECLAMATION
 STATE OF CALIFORNIA

PART I GENERAL INFORMATION - Continued

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

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

- | | | | |
|------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No

3. What is the dollar threshold to distinguish Type A and Type B programs? (\$___ .520(b)) \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (\$___ .530) 1 Yes 2 No

5. Is a reportable condition disclosed for any major program? (\$ ___ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (\$ ___ .510(a)(1)) 1 Yes 2 No

7. Are any known questioned costs reported? (\$ ___ .510(a)(3) or (4)) 1 Yes 2 No

8. Was a Summary Schedule of Prior Audit Findings prepared? (\$___ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

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

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

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

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

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

PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 1)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 7,606 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 1,123,957 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	BCF	02-III-01, 02-II I-02, 02-III-03
1	6 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 38,010 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	3 .544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT	\$ 218,494 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 261,091 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →				\$ 1,649,158 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

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

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

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

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act
- E. Eligibility

- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income

- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

⁴ N/A for NONE

PART I Item 5 Continuation Sheet

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

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

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

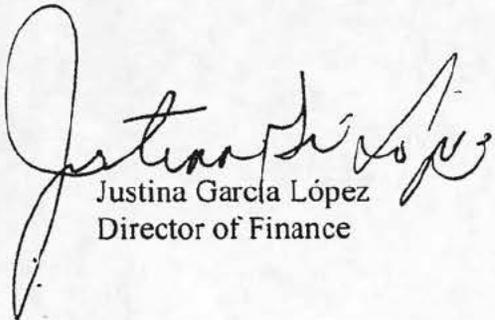
**MUNICIPALITY OF MAUNABO, PUERTO RICO
CORRECTIVE ACTION PLAN (CAP)
SCHEDULE OF FINDING AND QUESTIONED COSTS
ON SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2002**

JUN 19 AM 8:45
 RECIBIDO
 UNIDAD DE CORREO
 COMISIONADO
 MUNICIPAL

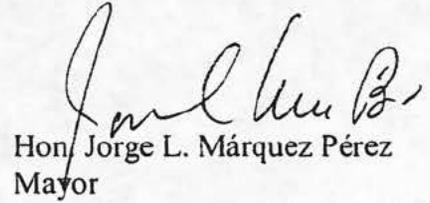
FINDING NUMBER	FINDING DESCRIPTION	CAP
02-II-01	Construction in progress accounted as part of property, plant and equipment account balances were not properly valued. There are not adequate internal control procedures to assure the proper valuation and timeliness recognition of real estate inventory.	The Municipality is currently in process of obtaining quotations from qualified vendors to implement new GASB's. The finding identified in this area will be eliminated with the correction and the recording of fixed assets in the new plant ledger, specially as required by the GASB #34. The Municipality is scheduling to start this process commencing with the new fiscal year.
02-III-01	Vouchers related supporting documents were not stamped as paid.	The Municipality does not agree with this finding because all original documents that support each voucher payments are stamped as paid, contrary as reported by our auditors. No further action is deemed necessary.
02-III-02	The bank statements are showing high cash balances, meaning that federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.	The Federal Programs Director is currently reviewing the steps followed by the Municipality to disburse the funds. Instructions have been given to her to request funds only to cover immediate expenditures incurred.

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FINDING NUMBER	FINDING DESCRIPTION	CAP
02-III-03	Federal Program Department does not have a property register.	See CAP on finding 02-II-01. This condition will be corrected simultaneously with the correction of the Municipality's other fixed assets.



Justina Garcia López
Director of Finance



Hon. Jorge L. Márquez Pérez
Mayor