

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

**MUNICIPIO DE MAYAGUEZ**  
**AUDITORIA 2000-01**  
**30 DE JUNIO DE 2001**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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*Cathy #02-6222*

**MUNICIPALITY OF MAYAGÜEZ  
MAYAGUEZ, PUERTO RICO**

**GENERAL PURPOSE FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS THEREON**

**JUNE 30, 2001**

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

SINGLE AUDIT REPORT AND  
FINANCIAL STATEMENTS  
JUNE 30, 2001

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GENERAL PURPOSE FINANCIAL STATEMENTS

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MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

SINGLE AUDIT REPORT  
JUNE 30, 2001

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## **NIEVES VELAZQUEZ & CO., P.S.C.**

**Certified Public Accountants and Financial Consultants**

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### **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To The Mayagüez Honorable Mayor  
and Members of the Municipality Assembly  
Mayagüez, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Mayagüez, Puerto Rico, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements present financial information in discrete presentation of an independent fiscal entity. 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. The financial statements of the Mayagüez-Las Marias Consortium (the Component Unit) were audited by other auditors who issued an unqualified opinion dated November 8, 2001.

Except as discussed in the third and fourth 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records we were unable to form an opinion regarding the cash balance of the general and special revenue fund.

As more fully described in Note 9, the Municipality accounting records are inadequate to determine the completeness of the fixed assets inventories. Therefore, we were unable to form an opinion regarding the amount at which those fixed assets were recorded in the general fixed assets account group.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**  
(Continuation)

In our opinion, except for the effect of such adjustments, if any, had the matters discussed in the third and fourth paragraphs been susceptible to satisfactory tests, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Mayagüez as of June 30, 2001, and the results of its operations and changes in cash flows of the non expendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

December 21, 2001  
San Juan, Puerto Rico

CPA Stamp No. 1690720 was  
affixed to the record copy of  
this report

*Nieves Velazquez & Co. P.S.C.*



MUNICIPALITY OF MAYAGUEZ, PUERTO RICO  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS AND DISCRETELY PRESENTED UNIT  
 YEAR ENDED JUNE 30, 2001

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2000)

	Governmental Fund Types				Fiduciary Fund	Account Groups		Total Primary Government (memorandum only)	Component unit	2001 Reporting Entity (memorandum only)	2000 Reporting Entity (memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	Trust	General Fixed assets	General Long-term Debt				
<u>Assets and Other Debits</u>											
Cash (including \$15.7 millions in certificates of deposits)	\$13,705,079	6,672,465	-	-	354,430	-	-	20,731,974	361,971	21,093,945	13,932,400
Receivable											
Intergovernmental	3,974,893	-	224,931	-	-	-	-	4,199,824	-	4,199,824	9,004,972
Interest	-	-	38,488	59,242	-	-	-	97,730	-	97,730	169,845
From other funds	1,691,633	337,219	-	-	185,774	-	-	2,214,626	-	2,214,626	2,051,654
Notes and mortgage loans	-	-	-	-	889,179	-	-	889,179	-	889,179	926,181
From federal agencies	-	15,971,073	-	362,034	-	-	-	16,333,107	1,104,293	17,437,400	15,790,789
Others	456,199	1,856,451	-	-	-	-	-	2,312,650	-	2,312,650	1,831,356
Restricted cash with fiscal agent	3,025,010	-	13,552,310	12,793,048	-	-	-	29,370,368	-	29,370,368	42,691,149
Property, plant and equipment	-	-	-	-	-	73,289,241	-	73,289,241	322,670	73,611,911	57,054,020
Amount available in debt service fund	-	-	-	-	-	-	9,195,983	9,195,983	-	9,195,983	8,285,576
Amount to be provided for payment of general long-term debt	-	-	-	-	-	-	47,562,075	47,562,075	-	47,562,075	48,031,593
Amount to be provided for payment of accrued compensated absences	-	-	-	-	-	-	5,454,453	5,454,453	169,677	5,624,130	4,460,852
Amount to be provided for payment of legal claims and federal government	-	-	-	-	-	-	2,811,306	2,811,306	-	2,811,306	3,576,742
Amount to be provided for payment of landfill obligations	-	-	-	-	-	-	2,706,000	2,706,000	-	2,706,000	2,706,000
<b>Total assets and other debits</b>	<b>\$22,852,814</b>	<b>24,837,208</b>	<b>13,815,729</b>	<b>13,214,324</b>	<b>1,429,383</b>	<b>73,289,241</b>	<b>67,729,817</b>	<b>217,168,516</b>	<b>1,958,611</b>	<b>219,127,127</b>	<b>210,513,129</b>

(Continues)

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

MUNICIPALITY OF MAYAGUEZ, PUERTO RICO  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS AND DISCRETELY PRESENTED UNIT  
YEAR ENDED JUNE 30, 2001

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2000)  
(CONTINUATION)

Liabilities and Fund Balances	Governmental Fund Types				Fiduciary Fund	Account Groups		Total Primary Government (memorandum only)	Component unit	2001 Reporting Entity (memorandum only)	2000 Reporting Entity (memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	Trust	General Fixed assets	General Long-term Debt				
<b>Liabilities:</b>											
Accounts payable	\$3,743,273	3,980,452	-	-	-	-	-	7,723,725	1,466,264	9,189,989	8,017,668
Accrued liabilities	104,494	63,507	1,680,943	-	-	-	-	1,848,944	-	1,848,944	2,149,685
Accounts payable other	2,303	1,260,046	-	-	-	-	-	1,262,349	-	1,262,349	647,128
Due to other government units	178,692	-	-	-	-	-	-	178,692	-	178,692	3,067,631
Due to federal government	-	419,668	-	-	-	-	-	419,668	-	419,668	271,127
Due to other funds	330,605	1,552,263	108,803	222,955	-	-	-	2,214,626	-	2,214,626	2,051,654
Deferred federal assistance revenue	-	16,606,840	-	-	-	-	-	16,606,840	-	16,606,840	15,479,507
Deferred Revenues	12,900,679	-	-	362,034	-	-	-	13,262,713	-	13,262,713	14,681,002
General, special loan obligations and bonds	-	-	2,830,000	-	-	-	56,758,058	59,588,058	-	59,588,058	59,407,169
Accrued compensated absences	-	-	-	-	-	-	5,454,453	5,454,453	169,677	5,624,130	4,460,852
Accrued for legal claims	-	-	-	-	-	-	2,811,306	2,811,306	-	2,811,306	3,576,742
Accrual for landfill obligations	-	-	-	-	-	-	2,706,000	2,706,000	-	2,706,000	2,706,000
<b>Total liabilities</b>	<b>17,260,046</b>	<b>23,882,776</b>	<b>4,619,746</b>	<b>584,989</b>	<b>-</b>	<b>-</b>	<b>67,729,817</b>	<b>114,077,374</b>	<b>1,635,941</b>	<b>115,713,315</b>	<b>116,516,165</b>
<b>Fund balances:</b>											
Investment in general fixed assets	-	-	-	-	-	-	73,289,241	73,289,241	322,670	73,611,911	57,054,020
Reserved for encumbrances	202,469	-	-	-	-	-	-	202,469	-	202,469	731,259
Reserved for expenditures financed with long-term debt	3,025,010	-	-	-	-	-	-	3,025,010	-	3,025,010	2,413,442
Unreserved, designated for:											
Debt service	-	-	9,195,983	-	889,179	-	-	10,085,162	-	10,085,162	9,211,757
Subsequent year expenditures	-	954,432	-	-	272,038	-	-	1,226,470	-	1,226,470	587,064
Capital projects	-	-	-	12,629,335	-	-	-	12,629,335	-	12,629,335	27,229,387
Undesignated	2,365,289	-	-	-	268,166	-	-	2,633,455	-	2,633,455	(3,229,965)
<b>Total fund balances</b>	<b>5,592,768</b>	<b>954,432</b>	<b>9,195,983</b>	<b>12,629,335</b>	<b>1,429,383</b>	<b>73,289,241</b>	<b>-</b>	<b>103,091,142</b>	<b>322,670</b>	<b>103,413,812</b>	<b>93,996,964</b>
<b>Total liabilities and fund balances</b>	<b>\$22,852,814</b>	<b>24,837,208</b>	<b>13,815,729</b>	<b>13,214,324</b>	<b>1,429,383</b>	<b>73,289,241</b>	<b>67,729,817</b>	<b>217,168,516</b>	<b>1,958,611</b>	<b>219,127,127</b>	<b>210,513,129</b>

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

MUNICIPALITY OF MAYAGUEZ, PUERTO RICO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 ALL FUND TYPES AND ACCOUNT GROUPS AND DISCRETELY PRESENTED UNIT  
 YEAR ENDED JUNE 30, 2001

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2000)

	Governmental Fund Types				Fiduciary Fund	Total Primary Government (memorandum only)	Component unit	2001 Reporting Entity (memorandum only)	2000 Reporting Entity (memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust				
<b>Revenues</b>									
Property taxes	\$18,862,357	-	6,840,897	-	-	25,703,254	-	25,703,254	23,709,257
Volume of business	13,663,214	-	-	-	-	13,663,214	-	13,663,214	13,519,714
Rental income of properties	649,401	-	-	-	-	649,401	-	649,401	794,812
Federal assistance	-	17,095,725	-	-	-	17,095,725	-	17,095,725	16,181,748
Charges for services	-	-	-	-	-	-	6,383,823	6,383,823	4,439,296
Fines and forfeits	133,190	-	-	-	-	133,190	-	133,190	25,745
Interest	1,588,680	66,284	-	1,158,428	-	2,813,392	-	2,813,392	1,936,772
Intergovernmental revenues	3,435,165	2,104,410	-	732,002	-	6,271,577	-	6,271,577	4,788,220
Miscellaneous	2,290,353	380,865	-	-	-	2,671,218	-	2,671,218	3,286,757
<b>Total revenues</b>	<b>40,622,360</b>	<b>19,647,284</b>	<b>6,840,897</b>	<b>1,890,430</b>	<b>-</b>	<b>69,000,971</b>	<b>6,383,823</b>	<b>75,384,794</b>	<b>68,682,321</b>
<b>Expenditures:</b>									
General government	16,126,919	1,548,621	-	-	-	17,675,540	6,325,932	24,001,472	19,763,412
Health	4,035,144	-	-	-	-	4,035,144	-	4,035,144	3,800,716
Highway and Streets	6,270,171	-	-	-	-	6,270,171	-	6,270,171	6,461,512
Public safety	3,108,900	150,232	-	-	-	3,259,132	-	3,259,132	2,960,709
Public works	3,846,496	71,543	-	-	-	3,918,039	-	3,918,039	3,725,195
Culture and recreation	2,060,516	-	-	-	-	2,060,516	-	2,060,516	1,858,695
Education	1,180,051	8,209,329	-	-	-	9,389,380	-	9,389,380	9,219,339
Capital project	-	3,511,060	-	15,378,474	-	18,889,534	-	18,889,534	14,235,524
Welfare	1,398,397	797,147	-	-	-	2,195,544	-	2,195,544	986,057
Housing	-	4,605,871	-	-	-	4,605,871	-	4,605,871	3,253,547
Debt service:									
Principal retirement of bonds and notes	-	-	3,652,458	-	-	3,652,458	-	3,652,458	5,770,000
Interest	-	-	3,789,164	-	-	3,789,164	-	3,789,164	2,687,092
<b>Total expenditures</b>	<b>38,026,594</b>	<b>18,893,803</b>	<b>7,441,622</b>	<b>15,378,474</b>	<b>-</b>	<b>79,740,493</b>	<b>6,325,932</b>	<b>86,066,425</b>	<b>74,721,798</b>
Excess /(deficiency) of revenues over/(under) expenditures before other financing sources/(uses)	2,595,766	753,481	(600,725)	(13,488,044)	-	(10,739,522)	57,891	(10,681,631)	(6,039,477)

(Continues)

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

MUNICIPALITY OF MAYAGUEZ, PUERTO RICO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 ALL FUND TYPES AND ACCOUNT GROUPS AND DISCRETELY PRESENTED UNIT  
 YEAR ENDED JUNE 30, 2001

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2000)  
 (CONTINUATION)

	Governmental Fund Types			Fiduciary Fund		Total Primary Government (memorandum only)	Component unit	2001 Reporting Entity (memorandum only)	2000 Reporting Entity (memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust				
Other Financing Sources/(Uses)									
Operating transfer in	1,276,714	3,825	1,511,132	-	-	2,791,671	-	2,791,671	8,998,268
Operating transfer out	(1,404,507)	(117,900)	-	(1,269,264)	-	(2,791,671)	-	(2,791,671)	(8,998,268)
Prior year accounts payable write off benefits	604,707	-	-	-	-	604,707	-	604,707	1,869,936
Loan proceeds	2,865,000	-	-	157,256	-	3,022,256	-	3,022,256	22,701,801
Total Other Financial Sources/(Uses)	3,341,914	(114,075)	1,511,132	(1,112,008)	-	3,626,963	-	3,626,963	24,571,737
	<i>2,737,267</i>								
Excess (deficiency) of revenues and other financing sources(uses) over (under) expenditures	5,937,680	639,406	910,407	(14,600,052)	-	(7,112,559)	57,891	(7,054,668)	18,532,260
	<i>5,332,973</i>								
Fund (deficiency) balance at beginning of year	(344,912)	315,026	8,285,576	27,229,387	272,038	35,757,115	264,779	36,021,894	17,489,634
Fund balance at end of year	\$5,592,768	954,432	9,195,983	12,629,335	272,038	28,644,556	322,670	28,967,226	36,021,894
	<i>4,988,661</i>								

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

MUNICIPALITY OF MAYAGUEZ, PUERTO RICO

COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS

BUDGETARY BASIS  
Year ended June 30, 2001

	General Fund			Debt Service Funds		
	Budget	Adjusted Actual	Variance Favorable/ (Unfavorable)	Budget	Adjusted Actual	Variance Favorable/ (Unfavorable)
<b>Revenues:</b>						
Property taxes	\$18,804,058	18,862,357	58,299	\$5,329,561	6,840,897	1,511,336
Volume of business taxes, licenses and permits	14,340,000	13,663,214	(676,786)	-	-	-
Rental income of properties	1,040,000	649,401	(390,599)	-	-	-
Fines and forfeits	114,000	133,190	19,190	-	-	-
Interest	1,989,750	2,865,394	875,644	-	-	-
Intergovernmental revenues	2,824,065	3,435,165	611,100	-	-	-
Miscellaneous	2,968,032	2,290,353	(677,679)	-	-	-
<b>Total revenues</b>	<b>42,079,905</b>	<b>41,899,074</b>	<b>(180,831)</b>	<b>\$5,329,561</b>	<b>6,840,897</b>	<b>1,511,336</b>
<b>Current expenditures:</b>						
General government	18,870,816	17,315,437	1,555,379	-	-	-
Health	4,136,185	4,035,144	101,041	-	-	-
Public safety	3,495,985	3,188,211	307,774	-	-	-
Public works	3,773,298	3,602,385	170,913	-	-	-
Culture and recreation	2,237,672	2,040,516	197,156	-	-	-
Highway & Streets	6,482,745	6,142,170	340,575	-	-	-
Education	1,288,064	1,180,051	108,013	-	-	-
Welfare	1,795,140	1,398,397	396,743	-	-	-
Debt service						
Principal	-	-	-	2,931,259	3,652,458	(721,199)
Interest	-	-	-	2,398,302	3,789,164	(1,390,862)
<b>Total expenditures</b>	<b>42,079,905</b>	<b>38,902,311</b>	<b>3,177,594</b>	<b>5,329,561</b>	<b>7,441,622</b>	<b>(2,112,061)</b>
<b>Excess of revenues over expenditures</b>	<b>\$ -</b>	<b>2,996,763</b>	<b>2,996,763</b>	<b>-</b>	<b>(600,725)</b>	<b>(600,725)</b>

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

MUNICIPALITY OF MAYAGUEZ, PUERTO RICO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
NON EXPENDABLE TRUST FUND

Year ended June 30, 2001

(With comparative totals for June 30, 2000)

	<u>2001</u>	<u>2000</u>
Operating revenues		
Interest	\$64,038	69,858
Operating expenses	<u>(92,522)</u>	<u>(68,050)</u>
Net income (Loss)	(28,484)	1,808
Fund balance at beginning of year	<u>1,185,829</u>	<u>1,184,021</u>
Fund balance at end of year	<u><u>\$1,157,345</u></u>	<u><u>1,185,829</u></u>

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

MUNICIPALITY OF MAYAGUEZ, PUERTO RICO

**STATEMENT OF CASH FLOWS  
NON EXPENDABLE TRUST FUND**

Year ended June 30, 2001

(With comparative totals for June 30, 2000)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net income (loss)	(\$28,484)	1,808
Adjustments to reconcile net income to cash provided(used) by operating activities:		
Decrease from other funds	17,817	176,106
(Increase) Decrease in notes and mortgage Loans Receivables	<u>37,002</u>	<u>(255,331)</u>
Net Adjustments	<u>54,819</u>	<u>(79,225)</u>
Cash Provided (used) by operating activities	<u>26,335</u>	<u>(77,417)</u>
Cash flows from investing activities	-	-
Cash flows from financing activities	<u>-</u>	<u>-</u>
Net increase(decrease) in cash	26,335	(77,417)
Cash and cash equivalents, beginning of year	<u>328,095</u>	<u>405,512</u>
Cash and cash equivalents, end of year	<u>\$354,430</u>	<u>328,095</u>

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

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Mayagüez was founded in the year 1760. The Municipality is comprised by the executive and the legislative assembly elected for a four year term during the general elections in Puerto Rico. The mayor is the executive officer and the legislative assembly consists of thirteen (13) members of the Municipality Council. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

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

#### A. FINANCIAL REPORTING ENTITY

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

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### A. FINANCIAL REPORTING ENTITY (Continuation)

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

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

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

The financial reporting entity included in this report consists of the combined financial statements of the Municipality of Mayagüez as primary government. The financial statements of the Mayagüez-Las Marias Consortium (the Consortium), discretely presented component unit, since the Municipality is financially accountable for the Consortium. The Consortium is an entity organized through a partnership by the Municipality of Mayagüez and the Municipality of Las Marias as requested by the Governor of Puerto Rico, in accordance with 20 CFR, Part 626 and Section 2.001 of the Autonomous Municipal Law of Puerto Rico. The entity was designated as Service Delivery

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Area (SDA) according to the provision of the Workforce Investment Act of 1998, set fourth in Section 117(b) and the federal regulation as issued by the U.S. Secretary of Labor for the implementation of WIA. The purpose of the organization is to establish programs to provide remedial education, training and employment assistance to economically disadvantages youth and adults, and persons facing multiple barriers to employment and dislocated workers.

#### B. BASIS OF PRESENTATION

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds and account groups are reported by generic classification within the financial statements. Amounts in the "Total Reporting Entity (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes fund types and account groups that use different bases of accounting, includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense.

Consequently, amounts shown in the "Total Reporting Entity (Memorandum Only)" columns are not comparable to a consolidation and do not represents the total resources available or total revenues and expenditures/expenses of the Municipality. The following fund types and account groups are used by:

#### Governmental Funds

Governmental Funds are those through which most governmental

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**B. BASIS OF PRESENTATION (Continuation)**

**Governmental Funds (Continuation)**

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

**a. General Fund**

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

**b. Special Revenue Funds**

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

**c. Debt Service Fund**

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

**d. Capital Project Funds**

Capital Project Funds are used to account for financial resources

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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1. **NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

B. **BASIS OF PRESENTATION (Continuation)**

**Governmental Funds (Continuation)**

d. **Capital Project Funds (Continuation)**

to be used for the acquisition or construction of major capital facilities, other than those financed by trust funds.

**Fiduciary Funds**

Trust funds are used to account for assets held by the Municipality in trustee capacity for governmental units. Non expendable trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable trust funds are accounted in essentially the same manner as the governmental funds.

**Account Groups**

Account Groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

**General Fixed Assets Account Group**

This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group. Such assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### B. BASIS OF PRESENTATION (Continuation)

##### Account Groups (Continuation)

##### General Fixed Assets Account Group (Continuation)

gutters, drainage systems, lighting systems and similar assets are capitalized. No depreciation is provided on General Fixed Assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value at the donation date.

##### General Long-Term Debt Account Group

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

#### C. BASIS OF ACCOUNTING

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

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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1. **NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**C. BASIS OF ACCOUNTING (Continuation)**

**Governmental and Expendable Trust Funds**

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

Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred.

**Non Expendable Trust Funds**

This fund uses the accrual basis of accounting. Their revenues are recognized when earned and their expenses are recognized when they are incurred.

**D. BUDGETARY DATA**

Budgets are prepared for General and Debt Service Funds following the requirements of the Municipal Law. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These includes: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

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1. **NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

D. **BUDGETARY DATA** (Continuation)

liability, workers compensation and property insurance premiums. Budget amendments which require a change in total appropriations of any department are approved by the Municipality Council. Certain budget transfers within the limitations and restriction of the Municipal Law can be approved by the Executive Branch or by the Legislature Branch.

The budgets are prepared on a budgetary (statutory) basis of accounting which is different from GAAP and reflect encumbrance accounting as described below. In instances where budget revenues appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final revenues and authorization amounts. Unencumbered appropriations are lapsed at year end. Formal budgetary information is employed as a management control device during the year for the General and Debt Service Funds. Formal budgetary integration is not employed for Special Revenue and Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

E. **ENCUMBRANCES**

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

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### F. INSURANCE COVERAGE

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the cities and municipalities of Puerto Rico.

The coverage for the Municipality of Mayagüez consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

Payment of the Municipality's insurance premiums are withheld monthly from property tax advances and subsidies sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

#### G. COMPENSATED ABSENCES

The Municipality's employees accumulate vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon employment termination the accumulated vacations are paid to the maximum number of days. Accumulated sick pay is paid to employees with 10 years or more service up to the maximum number of days. The amount of vacations leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period. The Municipality is required to pay the excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of the prior year.

Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date. The accrual of compensated absences include estimated payments that are related to payroll. Vacations and sick leave, when paid, are recorded as expenditures in the General Fund. Unpaid amount is recorded in the Long-Term Debt Group of Accounts.

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**H. CASH AND SHORT-TERM INVESTMENTS**

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash in the special revenue and capital project funds are deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates of deposit and are stated at cost, which approximates market value.

**I. INVENTORIES**

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

**J. 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 appropriable for expenditure. The Municipality has the following reservations of fund balance:

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

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1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

J. RESERVATIONS OF FUND BALANCE (Continuation)

Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Debt Service

Represents net assets available to finance future debt service payments.

Capital Projects

Represent net assets available to finance future capital outlays.

For Equipment and other Purposes

Represents net assets legally segregated for acquisition of equipment and other specific future use.

For Loans and Grants

Represent net assets available to finance and subsidiary other projects.

K. CLAIMS AND JUDGMENTS

The estimated amount of the liability for claims and judgments, 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 payments.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

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1. **NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

L. **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. **TOTALS COLUMN (MEMORANDUM ONLY) IN THE GENERAL PURPOSE FINANCIAL STATEMENTS**

The total data under this column represents the aggregate amount of the different fund types and account groups. No consolidating or other eliminations were made in arriving at these totals; therefore, they do not present consolidated information.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

As of June 30, 2001 the others expenditures and operating transfers in (out) categories in the general fund, disclosed excess of revenues over expenditures in the Statement of Revenues and Expenditures-Budget and Actual. The excess occurred primarily due to substantial reduction in the expenditures. However, the debt service fund revenues were less that budget due to decrease in property tax collections.

3. **RECONCILIATION OF DIFFERENCES BETWEEN BUDGET STATUTORY BASIS TO GAAP**

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances-All Fund Types and Discretely Presented Component Unit has been prepared in accordance with GAAP and the Combined Statement

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 3. RECONCILIATION OF DIFFERENCES BETWEEN BUDGET STATUTORY BASIS TO GAAP (Continuation)

of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget-Statutory)-General Fund Type has been prepared on the budgetary basis, which is different from GAAP. The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses:

Excess of revenues and other financing sources over expenditures and other financing uses (Budgetary-Statutory Basis)	\$2,996,763
Add: Current year encumbrances recognized as expenditures on the budgetary basis	202,469
Prior year account payable write off benefits	604,707
Loan proceeds not budgeted	2,865,000
Less: Prior year encumbrances recognized as expenditures on the accounting basis	<u>(731,259)</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$5,937,680</u>

### 4. CASH

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

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001**

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**5. DUE FROM (TO) STATE GOVERNMENTAL AGENCIES**

The Municipality's due from (to) balance with governmental agencies as of June 30, 2001 follows:

	<u>DUE FROM</u>	<u>DUE TO</u>
Municipal Revenue Collection Center (CRIM) - (See Note 12)	\$3,772,479	-
Puerto Rico Aqueduct and Sewer Authority	-	36,044
Puerto Rico Electric Power Authority	202,414	-
Department of Labor	-	45,843
Retirement System Administration	<u>-</u>	<u>96,805</u>
Total	<u>\$3,974,893</u>	<u>178,692</u>

**6. NOTES AND MORTGAGE LOANS**

The U.S. Department of Housing and Urban Development (HUD) approved loans of \$379,876 and \$750,000 granted to the developers, Western Bowling Sports Center, Inc. (For-profit corporation) and "Corporación para el Desarrollo del Oeste, Inc.", a local development corporation (non-profit corporation), respectively. These grants were administered by the Municipality of Mayagüez. The \$379,876 grant proceeds granted to Western Bowling Sports Center, Inc. were utilized for the construction of a 23,000 sq. feet building to be used as a 24 lanes bowling center, and the installation of capital equipment and machinery. The \$750,000 grant proceeds granted to "Corporación para el Desarrollo del Oeste, Inc." were used as a permanent financing for the construction of a commercial building to be leased to a third party in order to enhance the economic activity in the area and to provide employment. Also, during the fiscal year the Municipality approved and issue two mortgage loans for facility

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**6. NOTES AND MORTGAGE LOANS (Continuation)**

improvements to Mr. Jesús María Ruiz Brignoni and Bartolomé Carrero Carrero amounting to \$250,000 and \$40,000, respectively.

The Loan Commitment between the Municipality, the Grantor and the developers established the following significant conditions and clauses:

**Western Bowling and Sports Center, Inc.**

During the year ended June 30, 1996, the UDAG loan was modified under a trouble debt restructuring agreement as approved by grantor agency. The new loan principal of \$100,000 will bear no interest and is to be payable in 180 monthly installments of \$556.

**"Corporación para el Desarrollo del Oeste, Inc."**

The permanent loan will bear a 6% interest rate in the first year of the loan, 7% in the second year and 8% in the remaining years outstanding. This loan is to be repaid in 80 consecutive quarterly installments. The payment including interest will be \$18,600, in the first year, \$17,700 in the second year and \$18,600 in the third year and thereafter.

As of June 30, 2001, the outstanding receivable balance from Western Bowling and Sports Center is \$65,000 and \$534,179 from "Corporación para el Desarrollo del Oeste, Inc." for a total amount of \$599,179.

**Jesús María Ruiz Brignoni**

This mortgage loan was issued for the remodeling and improvements of the Mayagüez Hotel Plaza on January 19, 2000. The loan collateralized with a second mortgage on the property, bears interest at 2% and it is payable in 12 years. If the principal amount is at least 50% paid within the first six (6) years, the Municipality will issue a tax grant for the remaining balance. No payments were received during the year.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

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6. NOTES AND MORTGAGE LOANS (Continuation)

Bartolomé Carrero Carrero

This mortgage loan was issued for the improvement of the hardware premises on February 25, 2000. The loan collateralized with second mortgage on the property bears interest at 3.5% and it is payable in 120 consecutive monthly installment of \$399.54 commencing in June 1, 2000. The loan also guarantee five (5) direct employments. No payments were received during the year.

7. DUE FROM (TO) OTHER FUNDS

<u>Fund</u>	<u>Interfund loans receivable</u>	<u>Interfund loans payable</u>
General	\$1,691,633	330,605
Special Revenue	337,219	1,552,263
Debt Service	-	108,803
Capital Project	-	222,955
Trust	<u>185,774</u>	<u>-</u>
	<u>\$2,214,626</u>	<u>2,214,626</u>

8. RESTRICTED ASSETS-CASH

Restricted cash balance in the general, special revenue and capital projects funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal governmental instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections, which are restricted only for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

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8. RESTRICTED ASSETS-CASH (Continuation)

by the Governmental Development Bank of Puerto Rico agency in accordance with the Municipal Law of Puerto Rico and it is guaranteed by the Commonwealth of Puerto Rico. Interest earned by their sinking fund and transferred to the general fund amounted to \$1,450,717 during the fiscal year 2000-01.

9. PROPERTY, PLANT AND EQUIPMENT

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

	<u>Equipment</u>	<u>Real Estate</u>	<u>Total</u>
Balance at June 30, 2000	\$16,941,340	39,847,901	56,789,241
Additions	-	16,500,000	16,500,000
Retirements	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2001	<u>\$16,941,340</u>	<u>56,347,901</u>	<u>73,289,241</u>

The Municipality is organizing its property records to determine the amount invested in general fixed assets. This process requires the identification of all real and personal property through physical inventories and their subsequent valuation. Once this process is completed, the Municipality will determine the correct amount of its investment in general fixed assets recorded in the general fixed assets account group, and included in the general purpose financial statements. Presently is not practical to determine the correct amount invested in general fixed assets. Therefore, the amount presented in the financial statements have not been audited.

## MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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#### 10. DEFERRED REVENUES

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

Municipal License Tax (Note 13)	\$10,279,415
Municipal Revenue Collection Center (CRIM)	<u>2,621,264</u>
	<u>\$12,900,679</u>

#### 11. LONG-TERM DEBT

##### General Obligation Bonds

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2001 amounted to \$51,417,627. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) and the Chemical Bank (a private financial entity) maturing at various dates. The Municipal Revenue Collection Center (CRIM) is obligated to levy the tax determined by the municipalities and collect the taxes for payment of principal and interest on the bonds. A sinking fund has been established for the bonds at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of long-term debt issued to finance operations of the general fund are made through retention to intergovernmental revenues by the CRIM.

A detail of the general obligation bonds, loans and notes as of June 30, 2001 follows:

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**11. LONG-TERM DEBT (Continuation)**

**General Obligation Bonds (Continuation)**

<u>Original Amount</u>	<u>Annual Payment</u>	<u>Description</u>	<u>Maturity</u>	<u>Rate</u>	<u>Outstanding Balance</u>
\$ 5,900,000	395,000	Public Improvement Bond	July 1, 2002	8.20%	\$ 395,000
6,000,000	330,000 - 640,000	Public Improvement Bond	July 1, 2007	8.20%	3,075,000
850,000	75,000 - 100,000	U.S. Government Guaranteed Notes	August 1, 2005	6.5-7.5%	450,000
9,950,000	605,000 - 1,120,000	Public Improvement Bond	July 1, 2008	6.7-7.6%	6,285,000
1,170,000	20,000 - 110,000	Public Improvement Bond	January 1, 2019	8%	1,055,000
1,310,000	20,000 - 115,000	Public Improvement Bond	July 1, 2004	7.50%	1,270,000
4,060,000	170,000 - 445,000	Public Improvement Bond	July 1, 2013	7.50%	3,705,000
1,105,000	150,000 - 220,000	Public Improvement Bond	July 1, 2005	7.50%	790,000
205,000	5,000 - 15,000	Public Improvement Notes	July 1, 2024	7.50%	195,000
930,000	10,000 - 80,000	Public Improvement Notes	July 1, 2024	7.50%	905,000
4,055,000	215,000 - 490,000	Public Improvement Notes	July 1, 2011	7.29-7.5%	3,605,000
10,050,000	145,000 - 840,000	Public Improvement Notes	July 1, 2024	7.29-7.5%	9,745,000
1,025,000	50,000 - 110,000	Public Improvement Bond	July 1, 2010	5.25-6.3%	750,000
675,000	10,000 - 60,000	General Obligation Bond	July 1, 2021	8%	620,000

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

11. LONG-TERM DEBT (Continuation)

General Obligation Bonds (Continuation)

4,565,000	305,000 -	565,000	General Obligation Bond	July 1, 2008	8%	3,155,000
400,000	10,000 -	40,000	Operational Loan	July 1, 2016	6.63%	345,000
7,510,000	190,000 -	715,000	Operational Loan	July 1, 2017	7.50%	6,775,000
1,645,000	45,000 -	160,000	General Obligation Bond	July 1, 2016	8%	1,475,000
229,000	6,000 -	17,000	General Obligation Bond	January 1, 2020	5.125%	216,000
3,525,000	155,000 -	395,000	General Obligation Bond	July 1, 2012	6-8%	3,055,000
2,865,000	200,000 -	390,000	Operational Loan	July 1, 2024	8%	2,665,000
<u>1,071,000</u>	90,564 -	125,321	Capitalized Lease	July 21, 2005	7.35%	<u>886,627</u>
<u>\$49,565,000</u>						<u>\$51,417,627</u>

The annual requirements to amortize long-term obligations outstanding and other long-term debt as of June 30, 2000 are as follows:

Year ended <u>June 30,</u>	<u>General Obligation Bonds, Operational Loans and Notes</u>		
	<u>Principal</u>	<u>Interests</u>	<u>Total</u>
2002	\$ 3,780,265	3,770,081	7,550,346
2003	3,665,105	3,473,908	7,129,013
2004	3,932,056	3,189,529	7,121,585
2005	4,254,201	2,882,113	7,136,314
2006	4,099,000	2,465,606	6,564,606
Thereafter	<u>31,697,000</u>	<u>16,055,315</u>	<u>47,752,315</u>
	<u>\$51,417,627</u>	<u>31,836,552</u>	<u>83,254,179</u>

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2001

11. LONG-TERM DEBT (Continuation)

Other Long-Term Debt-Bond Anticipation Notes (BAN's)

Other long-term debts are comprised of the followings:

During the current fiscal year, the Municipality had issued Bond Anticipation Notes (BAN's) in the amount of \$157,262. The Municipality intends refinancing of the BAN's on a long-term basis. It has demonstrated its intention and its ability to consummate by a financing agreement with the Governmental Development Bank of Puerto Rico (GDB) which does not expire within one year from the date of the combined balance sheet. The refinancing will be done by issuing general obligation bonds of \$3,300,000, \$1,910,000, and 1,500,000 through GDB. Accordingly, the amount of \$229,000 will not require the use of available financial resources and has been classified as other long-term debt.

Changes in General Long-Term Debt

	<u>Balance at June 30, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Other Adjustments</u>	<u>Balance at June 30, 2001</u>
General obligation bonds, operational loans and notes	\$ 51,134,000	3,936,085	(3,652,458)	-	51,417,627
Bond anticipation notes (Note 11)	5,183,169	157,262	-	-	5,340,431
Accrued Compensated Absences	4,334,502	1,119,951	-	-	5,454,453
Estimated liabilities for claims and judgements (Note 20)	495,000	5,000	-	-	500,000
Questioned costs under OIG Recovery Plan (Note 20-a-2)	3,081,742	-	(770,436)	-	2,311,306
Estimated liability for Landfill Closure and Post-closure Costs	<u>2,706,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,706,000</u>
	<u>\$ 66,934,413</u>	<u>5,218,298</u>	<u>(4,422,894)</u>	<u>-</u>	<u>67,729,817</u>

## MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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#### 12. PROPERTY TAXES

The "Centro de Recaudaciones de Ingresos Municipales" (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Municipal Property Tax Laws (Law 83 of August 1991). The tax levied on property is determined by the CRIM and the Municipality based on limits established by the Commonwealth Legislature. The tax on personal property is self assessed by the tax payer. The assessment is made on a return which must be filed with the CRIM by May 15 of each year. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality.

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advances and amounts assigned (withheld) for the repayment of the bond obligations. As part of the requirements of the new Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM should determine a final liquidation of funds distributed to municipalities for the fiscal year ended June 30, 2000 within six months after the fiscal year.

As part of the requirements of the new Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities for the fiscal year ended June 30, 2001. This distribution includes advances of property tax and income derived from other subsidies from the state government. A preliminary liquidation resulted in a favorable amount of \$2,621,264 of which \$1,310,632 was received in November 2001.

## MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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#### 12. PROPERTY TAXES (Continuation)

The total amount is presented as an account receivable and deferred revenue in the accompanying financial statements.

In August 2001, the CRIM reimbursed \$1,151,215 to the Municipality related with withholdings of the LIMS Project for the years 1996-97 to 1999-2000. This amount is also presented as an account receivable and as a reduction of expenditures in the accompanying financial statements.

#### 13. MUNICIPAL LICENSES TAXES

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

Amounts collected in advance pertaining to next fiscal period are reported as deferred revenue in the General Fund. This year collections reported as deferred revenues amounted to \$10,279,415.

#### 14. INTERGOVERNMENTAL REVENUES

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

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 15. RENTAL REHABILITATION LOANS

The U.S. Department of Housing and Urban Development (HUD) awarded the Municipality rental rehabilitation grants for the rehabilitation of real property to be used for primarily residential purposes which have one or more substandard conditions under state or local housing codes on the Section 8, Housing Quality Standards. After rehabilitation, projects must meet Section 8, Housing Quality Standards and should be occupied initially by lower income families. Funds are assigned by the Municipality as non-interest bearing mortgage loans up to a maximum of 50% of total required amount for rehabilitation. The outstanding balance was not required by generally accepted accounting principles and, therefore, is not presented.

### 16. RETIREMENT PLAN

#### Plan Description

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P. O. Box 42003, San Juan, Puerto Rico 00940.

The annual retirement benefits for those regular full-time employee hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**16. RETIREMENT PLAN (Continuation)**

**Plan Description (Continuation)**

**OLD PLAN**

**Eligibility**

**Pension Benefits**

Age 55 and 30 years  
of service

75% of average highest compensation  
during any 3 years of credited service

Under 55 and 30 years  
of service

65% of average highest compensation  
during any 3 years of credit service

Participant in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

**NEW PLAN**

**Eligibility**

**Pension Benefits**

Age 65 with 10 years  
of service

1.5% of average compensation during  
the final 5 years of credited services  
multiplies by the numbers of years  
credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**16. RETIREMENT PLAN (Continuation)**

**Funding Policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary. The Municipality total salaries amounted to approximately \$19,907,700 of which \$12,606,500 were subject to the retirement plan contribution. The Municipality and employees contribution amounted to \$1,167,400 and \$971,000 respectively, for the year.

**Actuarial Valuation**

The actuarial determined present value of benefits accrued as of July 1, 2000 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$9.5 billion. The net assets available for benefits at such date were \$2.1 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$7.4 billion. This information is not available by each participant government agencies nor municipalities.

Net assets of the System consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

Investment rate of return per year	8.5%
Salary increases per year	5%
Mortality rates table	GA'51

## MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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**17. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

The Municipality owns and operates an landfill site located on approximately 75 acres of land. State and federal laws and regulations require the Municipality to perform certain procedures on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability should be recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs amount to \$2,706,000 and has been presented in the long-term debt group of accounts.

**18. OPERATING LEASES**

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the Municipality's account groups. Total minimum rental expenditures for all operating leases during the fiscal year 2000-01 amounted approximately to \$979,664.

**19. HEALTH FACILITIES**

Starting on August 1998, the Municipality contracted with third parties the administration of its health services. The agreement provides for a five-year term. The agreement includes clauses related to lease of facilities, lease or sale of equipment, payment of inventory on hand, employees contracting and relocation, reporting requirements, monitoring procedures, legal responsibility among other administrative matters. The contract also includes lease agreement renewal options clauses.

# MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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### 20. CONTINGENCIES AND COMMITMENTS

#### Contingencies

##### a. Federal and State Grants

1. Prior years questioned costs remain uncleared by federal agencies. The ultimate outcome of the total expenditures, which may be disallowed by the grantor agency cannot be determined.
2. On July 1, 1997 the Office of Inspector General (OIG) issued an audit report for the operation of the Community Development Block Grant (CDBG) and Section 108 Loan Guarantee Assistance (LGA) programs administered by the Municipality. The audit covered CDBG program years 1986 through 1997 and a Section 108 LGA. Such report shows \$4,724,934 of ineligible costs and \$2,224,877 of unsupported costs. Additionally, it includes opportunities for cost efficiencies of \$3,365,180. In 1998, the Grantor Agency cleared the amount of \$1,755,825 based on response and evidence submitted by the Municipality, sustained \$4,435,594 as ineligible and unsupported costs and suspended \$3,335,908 until litigation with sub grantee is finally resolved by the court. On October 23, 1999, a payment of \$1,251,906 was made to HUD to reduce such debt. Also, a letter from the OIG dated June 19, 2000 informed the Municipality that the outstanding balance of \$3,081,742 should be reimbursed to the EDBG and LGA in eight (8) biannually payments of \$385,218 each until May 1, 2004.
3. At June 30, 2001, the Municipality had expended approximately \$15 millions for damages caused by Hurricane George in September 1998. The Municipality has claimed full reimbursement from the Federal Emergency Management Assistance (FEMA) however, it has only approved \$12.4 millions at June 30, 2001. The Municipality is in negotiation with the federal agency to approve additional funds. Should the federal agency subsequently approve additional funds it will reduce the excess of expenditures over revenues recorded in the accompanying financial statements.

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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20. **CONTINGENCIES AND COMMITMENTS (Continuation)**

Contingencies (Continuation)

a. Federal and State Grants (Continuation)

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

b. Legal Claims

The Municipality has been named as a defendant or co-defendant in various lawsuits amounting to approximately \$9.2 Millions. They primarily relate to accidents and personnel injuries and employee claims of alleged unjustified dismissal or breach of contracts.

The Municipality believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, the Municipality considers that these claims are filed in amounts far greater than those that can be reasonably expected to be agreed on with claimants or awarded by a court. Nonetheless, a reserve of \$3,011,306 has been established at June 30, 2001 to cover all those legal cases, which attorneys have advised are probable of having an unfavorable outcome and those cases for which an unfavorable sentences have been issued. This total amount is composed of \$200,000, which represents actual obligations under court sentences was recorded in the general fund, and the amount of \$500,000 together with CDBG \$2,311,306 amount indicated in (Note 11) which is not expected to be paid from current resources are accounted for in the general long-term debt group of accounts.

**MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**20. CONTINGENCIES AND COMMITMENTS (Continuation)**

**Commitments**

The Municipality had commitments of approximately \$1,563,000 related mainly with project construction contracts at June 30, 2001.

**21. SUBSEQUENT EVENT**

In August 2001, the Municipality obtained a loan amounting to \$9,950,000 to be paid in 25 years commencing in 2002. The payment of this loan will be through the advalorem portion of the property tax, which is deposited in the Government Development Bank for Puerto Rico.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

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ADDITIONAL REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133

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## **NIEVES VELAZQUEZ & CO., P.S.C.**

**Certified Public Accountants and Financial Consultants**

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

Mayor and Municipality Council  
Municipality of Mayagüez  
Mayagüez, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Mayagüez as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001, which is qualified because, we were unable to form an opinion regarding the cash balances of the general and special revenue funds; and the accounting records are inadequate to determine the completeness of the fixed assets account group of the Municipality. 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 Municipality of Mayagüez's general purpose financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance that are required to be reported under Government Auditing Standards. These noncompliance instances are described in the accompanying Schedule of Findings and Questioned Costs as Items 01-II-1, 01-II-2 and 01-II-3. We noted certain other immaterial instances of noncompliance that we will report in a separate letter to the management of the Municipality of Mayagüez.

INDEPENDENTS AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continuation)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Mayagüez'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 internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect Municipality of Mayagüez's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, as Items 01-II-1, 01-II-2 and 01-II-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, of the reportable conditions described above, we consider Items 01-II-2 and 01-II-3 to be material weaknesses.

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

February 4, 2002  
San Juan, Puerto Rico

*Nieves Velazquez & Co., P.S.C.*

Stamp #1690727 was affixed  
to the record copy of this report.





## **NIEVES VELAZQUEZ & CO., P.S.C.**

**Certified Public Accountants and Financial Consultants**

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

Mayor and Municipality Council  
Municipality of Mayagüez  
Mayagüez, Puerto Rico

#### Compliance

We have audited the compliance of Municipality of Mayagüez with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Municipality of Mayagüez's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Mayagüez's management. Our responsibility is to express an opinion on Municipality of Mayagüez'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Mayagüez compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Mayagüez compliance with those requirements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A - 133 (Continuation)**

Compliance (Continuation)

In our opinion, the Municipality of Mayagüez complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Finding and Questioned Costs as Items 01-III-1, 2, 3 and 4. We have noted other immaterial instances of noncompliance that we will report to the management of the Municipality of Mayagüez in a separate letter.

Internal Control Over Compliance

The management of the Municipality of Mayagüez is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Mayagüez'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 our report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters 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 the applicable requirements of laws regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-III-1, 2, 3 and 4.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A - 133 (Continuation)

Internal Control Over Compliance (Continuation)

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 the 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 believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Municipality of Mayagüez as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001. Our report was qualified because, we were unable to form an opinion regarding the cash balances of the general and special revenue funds and the accounting records are inadequate to determine the completeness of the fixed assets account group. 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 OMB Circular A-133 and is not a required part of the general purpose financial statements of Municipality of Mayagüez. Such information has been subjected to the auditing procedures applied in the audit of the general purposes 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.

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

February 4, 2002  
San Juan, Puerto Rico

*Nieves Velizgy & Co., P.S.C.*

CPA Stamp #1690728 was  
affixed to the record copy  
of this report



MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (Note 2)	Pass-Through Entity Identifying Federal Number (Note 3)	Expenditures (Notes 1 and 4)
<u>U.S. Department of HUD</u>			
Major Programs:			
Direct Programs:			
Community Development			
Block Grant-Entitlement (CDBG)	14.218	N/A	\$ 4,576,297
Section 8 Housing Choice Vouchers	14.871	N/A	3,533,530
Non-Major Programs:			
Direct Programs:			
Home Investment Partnership Prog.	14.239	N/A	1,042,796
Lower Income Housing Assistance Prog.			
Section 8 Moderate Rehabilitation	14.856	N/A	29,546
Rental Housing Rehabilitation	14.230	N/A	124,213
Emergency Shelter Grants	14.231	N/A	180,266
<u>U.S. Department of Health and Human Services</u>			
Major Programs:			
Direct Program:			
Head Start	93.600	N/A	6,150,118
Non-Major Program:			
Passed through the P.R. Governor Office:			
Special Programs for the Aging			
Title III-B	93.044	N/AV	328,714
<u>U.S. Department of Justice</u>			
Non-Major Program:			
Direct Program:			
Public Safety Partnership and Community Policy Grant (COPS)	16.710	N/A	<u>221,775</u>
Sub-Total Carryforward			<u>16,187,255</u>

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-Through Grantor /Program Title	Federal CFDA Number (Note 2)	Pass-Through Entity Identifying Federal Number (Note 3)	Expenditures  (Notes 1 and 4)
Balance brought-forward			\$16,187,255
<u>U.S. Department of Commerce</u>			
Non-Major Program:			
Passed-through Puerto Rico			
Transportation Federal Transit			
Capital Improvement Grants	20.500	PR 89-29-0616-526-F	175,014
<u>U.S. Department of Agriculture</u>			
Non-Major Program:			
Passed through the P.R. Department			
of Education:			
Child and Adult Care Food Prog.	10.558	CCC-051	486,603
Direct Program:			
Community Facilities Loans and			
Grants	10.766	N/A	222
<u>U. S. Federal Emergency Management Agency</u>			
Non-Major Program:			
Passed through Puerto Rico Governor's			
Authorized Representative (GAR):			
Public Assistance Grants	83.544	N/A	<u>139,472</u>
Total Federal Awards Expenditures			<u>\$16,988,566</u>

See notes to the Schedule of Federal Financial Awards.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. FEDERAL CFDA NUMBER

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

3. PASS-THROUGH ENTITY IDENTIFYING

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

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2001

4. RECONCILING OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS

Amounts included in the accompanying schedule agree with the amounts included in the general purpose financial statements as follows:

<u>Fund</u>	<u>Assistance</u>	<u>Other Assistance</u>	<u>Financial Statements</u>
Special Revenue	\$16,870,272	2,141,431	19,011,703
Capital Project	<u>118,294</u>	<u>16,529,444</u>	<u>16,647,738</u>
	<u>\$16,988,566</u>	<u>18,670,875</u>	<u>35,659,441</u>

5. FEMA-PUBLIC ASSISTANCE GRANTS

During the fiscal year 2001, the Municipality incurred in expenditures related with Public Assistance Grants. The Municipality's officials strongly believes that the federal agency will approve additional funding to cover expenditures incurred in the prior years.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section I. Summary of Audit Results

Part I. Financial Statements

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

Part II. Federal Awards

- |    |   |                     |   |  |
|----|---|---------------------|---|--|
| 1. | Reportable conditions reported:   |                     | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No            |
| 2. | Reportable conditions reported as material weaknesses                         |                     | <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No |
| 3. | Type of report on compliance for major programs                               | Unqualified opinion |   |  |
| 4. | Audit findings required to be reported under Section 510(a) of Circular A-133 |                     | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No            |
| 5. | Identification of major programs:   |                     |   |  |

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number (s)</u>
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Community Development Block Grant-Entitlement (CDBG)	14.218
Section 8 Housing Choice Vouchers	14.871
Head Start	93.600

- |    |   |  |                              |  |
|----|---|--|------------------------------|--|
| 6. | Dollar threshold used to distinguish Type A |  |                              | \$ 465,377                             |
| 7. | Low-risk audited                            |  | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
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CDBG	01-II-1	Accounting Records	
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Criteria and Condition

Section 20 of OMB-Circular 102 Common Rule requires that adequate accounting records should be maintained for each federal program. The, CDBG program maintain a cash receipts and disbursement record, encumbrances amounts, purchase orders and contract register but, does not maintain a general journal nor a complete general ledger to account for all assets, liabilities and fund balance, revenues and expenditures in order to prepare monthly, quarterly and year-end financial statements.

Cause

The accountants of the programs have not been instructed to maintain complete accounting records as to general journal and general ledger in order to prepare a balance sheet and a statement of operations of the programs.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	01-II-1	Accounting Records (Continuation)	
		<u>Effect</u>	
		The programs are not preparing accurate monthly, quarterly nor year-end financial statements.	
		<u>Recommendation</u>	
		We recommend the establishment of an integrated complete accounting records for the programs to comply with requirements of OMB Circular 102.	

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
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Section 8	01-II-2	Undistributed Debits and Credits	
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Criteria and Condition

Our audit revealed the Municipality's failure to properly implement internal controls and procedures to maintain an adequate and complete set of accounting records and reports. The Municipality failed to properly post and register its financial transactions related with payroll taxes and withholdings, as well as properly identify the concept and source of certain cash receipts known as undistributed debits and credits, of Section 8 programs in accordance with generally accepted accounting principles. The undistributed debits and credits for all Section 8 and moderate programs amounted to \$615,906 and \$374,941 respectively, at June 30, 2001.

Cause

The Section 8 voucher program bank account was selected to receive all federal funds assigned to voucher, certificate and moderate programs. However, when payroll tax withholding and employer's contributions are paid, as well as certain cash receipts adequate detail are not maintained by the programs. Therefore, amounts belonging to each programs are recorded as undistributed debits and credits.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-II-2	<p>Undistributed Debits and Credits (Continuation)</p> <p><u>Effect</u></p> <p>The programs account balances related with this payroll taxes and withholding as well as certain cash receipts are incorrect.</p> <p><u>Recommendation</u></p> <p>We recommend an analysis of all undistributed debits and credits account in order to distribute them to the proper federal program.</p>	

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG and Local Funds	01-II-3	<p>Fixed Assets</p> <p><u>Criteria and Condition</u></p> <p>Section 20 of OMB Circular 102, Common Rule requires that adequate accounting records should be maintained for each federal program. The Municipality has not maintained adequate accounting records to account for all the real and personal properties of all the municipality funds, federal and non-federal.</p> <p><u>Cause</u></p> <p>The Municipality maintains a property ledger for all real and personal property but, due to lack of adequate internal control there is no assurance that it includes all the property purchased and donated to the municipality.</p>	-

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG and Local Funds	01-II-3	<p>Fixed Assets (Continuation)</p> <p><u>Effect</u></p> <p>The fixed assets group of accounts balance presented in the general purpose financial statements is not necessarily correct.</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality to assign a task force or an outside consultant to identify all the real and personal property of the municipality, assign the corresponding cost of acquisition and the market value for the donated property in order to correct such account balances.</p>	

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section III Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	01-III-1	<p>Cash Management</p> <p><u>Criteria and Condition</u></p> <p>Section 21 of OMB Circular A-102, Common Rule and 24 CFR requires that funds should include procedures to minimize the time elapsed between the transfer of funds from HUD and the disbursement of funds by the grantee. During our test of 12 disbursements for CDBG, we noted that they were issued in approximately nine days after the monies were received</p> <p><u>Cause</u></p> <p>The administrative personnel related with the disbursement procedures are not processing the payments on time to minimize the time elapsed between the drawdown of funds and the disbursement of funds.</p> <p><u>Effect</u></p> <p>The cash balance is high for the program and therefore, is not complying with program requirements.</p> <p><u>Recommendation</u></p> <p>We recommend that disbursement procedures should be improved to accelerate the payments to comply with program requirements.</p>	-

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section III Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
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Section 8	01-III-2	Cash Management	
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Criteria and Condition

The Cash Management General Requirement of Circular OMB 102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. During our examination of the voucher and existing bank accounts, we noted cash balances of the programs amounting to approximately \$1,153,400, including \$7,612 interest earned, at June 30, 2001. The program total expenditure amounted to \$3,563,076. The expended closing of the program revealed \$322,198 in excess to be deducted from next year program budget.

\$322,198

Cause

The program had an excess of cash, due to once the budgeted amount is approved by HUD the funds are transferred monthly to the bank account but, partially is due to the incorrect balances of the undistributed debits and credits described in finding 01-II-2 and less expenses incurred than budgeted in current and prior year.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section III Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-2	<p>Cash Management (Continuation)</p> <p><u>Effect</u></p> <p>Cash was received in excess of current needs of the program.</p> <p><u>Recommendation</u></p> <p>We recommend that cash should be requested based on current needs and if actual expenditures will be less than the budgeted amount the cash requisition should be modified. Also, excess cash determined should be reimbursed to HUD or credited from future budget amounts.</p>	

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section III Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
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Section 8	01-III-3	Waiting List	
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Criteria and Condition

According to Section 982 of the OMB Circular A-102 and 24 CFR new tenants admitted to the program should be selected from the waiting list in accordance with PHA's tenant selection policies. During our review of the waiting list, we noted that there were new tenants admitted to the program that were not listed in the waiting list. Also, there were no updated utility allowance schedules in which the Municipality can review and adjust its allowance for participant's rent.

Cause

New tenants were not selected in accordance with specific regulations. Also, the program's officials failed to maintain an updated utility allowance schedule.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section III Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-3	<p>Waiting List (Continuation)</p> <p><u>Effect</u></p> <p>The federal program is not complying with the waiting list requirements nor the utility allowance schedule.</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality Officials to update the utility allowance schedule and the waiting list and that new participants should be selected following the required sequence.</p>	

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

Section III Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
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Section 8	01-III-4	Eligibility	
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Criteria and Condition

The OMB Circular A-133 and 24 CFR states that the Payment of Housing Assistant (PHA) required to follow certain procedures and obtain certain documents to determine the eligibility of an applicant. We selected a sample of 40 participants to test their compliance and found that three (3) penal record certifications were not in file or missing for our examination.

Cause

The programs administrative personnel are not reviewing adequately the participants files to maintain them current.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2001

**Section III Federal Award Findings and Questioned Costs**

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-4	<p>Eligibility (Continuation)</p> <p><u>Effect</u></p> <p>The applicants eligibility could not be verified due to the missing documents and the lack of evidence of the selecting procedure required.</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality to comply with the program rules, policies and procedures regarding the evaluation and review of each participant's file. All the personnel responsible for the review and evaluation process of each of the applicants record should follow all program rules, policies and procedures.</p>	

**NOTE:** All management comments related with findings in Parts II and III will be included in the Corrective Action Plan to be filed with the United States Bureau of Census.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 For the year ended June 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
6/30/2000 Report Dated 1/19/2001	CDBG	00-II-1	<u>Accounting Records</u> The Municipality does not maintain adequate accounting records for this federal program.	Finding repeated this year.
	Section 8	00-II-2	<u>Bank Reconciliations</u> The Municipality does not prepare bank reconciliations for Section 8.	Finding cleared this year.
	Section 8 & Moderate	00-II-3	<u>Undistributed Debits and Credits</u> The Municipality failed to properly implement internal control and procedures to maintain an adequate and complete set of accounting records and reports. The Municipality failed to properly post and register its financial transactions related with payroll taxes and credits, of Section 8 programs in accordance with generally accepted accounting principles.	Finding repeated this year.
	CDBG, Home & Local Funds	00-II-4	<u>Fixed Assets</u> The Municipality did not maintain adequate accounting records to account for all the real and personal properties of all the Municipality funds; federal and non federal.	Finding repeated this year except to CDBG and Home programs.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

PRIOR YEARS FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
6/30/2000 Report Dated 1/19/2001	CDBG	00-III-1	<u>Cash Management</u> The program is not complying to minimize the time elapsed between the funds received and disbursed.	Finding repeated this year.
	Section 8	00-III-2	<u>Cash Management</u> The program is not complying to minimize the time elapsed between the funds received and disbursed.	Finding repeated this year.
	Section 8	00-III-3	<u>Special Test and Provisions</u> New participants were admitted to the program who were not listed in the waiting list.	Finding repeated this year.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO

PRIOR YEARS FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
6/30/1999 Report Dated 3/03/2000	FEMA, CDBG & HOME	99-II-1	<u>Accounting Records</u> The Municipality does not maintain adequate accounting records for each federal program.	Finding repeated this year.
	Section 8 & CDBG	99-II-2	<u>Bank Reconciliations</u> The Municipality prepares reconciliation but doesn't clear the outstanding checks over one year.	Finding repeated this year.
	Section 8	99-II-3	<u>Undistributed Debits and Credits</u> The Municipality failed to properly implement internal control and procedures to maintain an adequate and complete set of accounting records and reports. The Municipality failed to properly post and register its financial transactions related with payroll taxes and credits, of Section 8 programs in accordance with generally accepted accounting principles.	Finding repeated this year.
	All programs (Except Head Start)	99-II-4	<u>Fixed Assets</u> The Municipality did not maintain adequate accounting records to account for all the real and personal properties of all the Municipality funds; federal and non federal.	Finding repeated this year except to CDBG program.

MUNICIPALITY OF MAYAGÜEZ, PUERTO RICO  
 PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 For the year ended June 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
6/30/1999 Report Dated 3/03/2000	CDBG	99-III-1	<u>Cash Management</u> Section 21 of OMB Circular A-102, Common Rule and 24 CFR requires that funds should include procedures to minimize the time elapsed between the transfer of funds from HUD and the disbursement of funds by the grantee. During our test of 12 disbursements for CDBG, we noted that all were issued after the five days required.	Finding repeated this year.
	Section 8	99-III-2	<u>Waiting List</u> The Federal Agency requires that an appropriate waiting list should be maintained for potential participants. During our review of the waiting list, we noted that it was out dated.	Finding repeated this year.