

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE PATILLAS

AUDITORIA 2000-01

30 DE JUNIO DE 2001

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS**

**SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**

2000-01

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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Management Consulting
Services Division
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Municipal Assembly
Municipality of Patillas
Patillas, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Patillas, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Patillas' management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The general purpose financial statements of Municipality of Patillas as of June 30, 2000, were audited by other auditors whose report dated December 15, 2000, expressed an unqualified opinion on those statements.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit 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.

We were unable to satisfy ourselves about fixed assets beginning balance, because the working paper of prior year auditor was not available for observation.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Patillas as of June 30, 2001, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2001, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

San Juan, Puerto Rico
December 18, 2001

Ortiz, Rodriguez, Rivera + Co.

The stamp 1776282 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

<u>Assets</u>	<u>Governmental Fund Types</u>			<u>Account Groups</u>		<u>Total</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Asset</u>	<u>General Long Term Debt</u>	<u>Memorandum</u>
Cash in bank; including certificates of deposits of \$1,000,000 (Note 2)	\$ 1,687,355	\$ 872,682	\$ -	\$ 832,297	\$ -	\$ -	3,392,334
Cash with fiscal agent (Note 2)		24,100	1,365,820				1,389,920
Accounts receivables:							
Due from other agencies (Note 7)	618,829	132,439					751,268
Interest receivable	2,646						2,646
Property and equipment (Note 6)					12,014,887		12,014,887
Amount available in debt service fund (Note 2)						1,365,820	1,365,820
Amount to be provided for retirement of general long-term debt						437,477	437,477
Amount to be provided through property tax collected for payment of related property tax advances						1,570,274	1,570,274
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						712,556	712,556
Total assets	\$ 2,308,830	\$ 1,029,221	\$ 1,365,820	\$ 832,297	\$ 12,014,887	\$ 4,086,127	\$ 21,637,182

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001

	Governmental Fund Types				Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Asset	General Long Term Debt	Memorandum
Liabilities and Fund Equity							
Liabilities							
Account payable and accrued liabilities	\$ 172,413	\$ 138,120	\$ -	\$ 336,588	\$ -	\$ -	\$ 647,121
Due to other agencies (Note 9)	517,926						517,926
Deferred revenues (Note 4)	324,084	891,101					1,215,185
Accrued vacations and sick leave (Note 1)						712,556	712,556
General long-term debts (Note 10)						1,309,188	1,309,188
Property tax advances						1,570,274	1,570,274
Claims and judgements (Note 12)						494,109	494,109
Total liabilities	1,014,423	1,029,221	-	336,588	-	4,086,127	6,466,359
Commitments and Contingencies (Notes 12, 13 and 14)							
Fund Equity							
Investment in general fixed assets					12,014,887		12,014,887
Fund balance							
Reserved for encumbrances	244						244
Designated for capital additions				495,709			495,709
Undesignated (deficit) equity	1,294,163		1,365,820				2,659,983
Total fund equity (deficit)	1,294,407	-	1,365,820	495,709	12,014,887	-	15,170,823
Total liabilities and fund equity	\$ 2,308,830	\$ 1,029,221	\$ 1,365,820	\$ 832,297	\$ 12,014,887	\$ 4,086,127	\$ 21,637,182

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 3)	\$ 892,807	\$ -	\$ 300,244	\$ -	\$ 1,193,051
Municipal license taxes (Note 4)	364,925				364,925
Licenses and permits	37,440				37,440
Charges for service and rents	102,045				102,045
Inter-governmental revenues (Note 5):					
Federal grants and contributions		4,856,765			4,856,765
State contributions	3,860,698			40,350	3,901,048
Interest, fines, and penalties	89,027		66,405		155,432
Other revenues	327,014				327,014
Total revenues	<u>5,673,956</u>	<u>4,856,765</u>	<u>366,649</u>	<u>40,350</u>	<u>10,937,720</u>
EXPENDITURES					
Municipal council	152,876				152,876
Offices:					
Administrative Services	204,302				204,302
Mayor	276,339				276,339
Departments:					
Civil Defense	225,272 ^{sf}	147,363			372,635
Finance	1,316,594 ^{cr}				1,316,594
Health	550,401				550,401
Public Works	2,008,266	4,461,612			6,469,878
Recreation	232,345				232,345
Personnel	192,340 ^b				192,340
Capital outlays				1,160,764	1,160,764
Collection of property taxes applied to advances (Note 15)	594,121				594,121
General Government	279,267 ^b				279,267
Secretary	52,858 ^b				52,858
Welfare		247,790			247,790

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types			Total	
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt services:					
Principal retirement (Note 10)	\$ -	\$ -	\$ 263,750	\$ -	\$ 263,750
Interest payments (Note 10)			94,596		94,596
Total expenditures	<u>6,084,981</u>	<u>4,856,765</u>	<u>358,346</u>	<u>1,160,764</u>	<u>12,460,856</u>
Excess of (deficiency) of revenues over expenditures	<u>(411,025)</u>	<u>-</u>	<u>8,303</u>	<u>(1,120,414)</u>	<u>(1,523,136)</u>
OTHER FINANCING SOURCES (USES)					
Advances of property taxes (Note 3)	594,121				594,121
Operating transfer-in	1,134,814		211,911	11,843	1,358,568
Operating transfer-out	(211,911)		(68,443)	(1,078,214)	(1,358,568)
Total other financing sources (uses)	<u>1,517,024</u>	<u>-</u>	<u>143,468</u>	<u>(1,066,371)</u>	<u>594,121</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>1,105,999</u>	<u>-</u>	<u>151,771</u>	<u>(2,186,785)</u>	<u>(929,015)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>188,408</u>	<u>-</u>	<u>1,214,049</u>	<u>2,682,494</u>	<u>4,084,951</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,294,407</u>	<u>\$ -</u>	<u>\$ 1,365,820</u>	<u>\$ 495,709</u>	<u>\$ 3,155,936</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable Memorandum
REVENUES (Notes 1 and 15)						
Property taxes	\$ 892,807	\$ 892,807	\$ -	\$ 228,888	\$ 300,244	\$ 71,356
Municipal license taxes	400,000	364,925	(35,075)			-
Licenses and permits	101,500	37,440	(64,060)			-
Charges for service and rents	95,001	102,045	7,044			-
Inter-governmental revenues:						-
State contributions	3,733,479	3,860,698	127,219			-
Interest, fines, and penalties	127,100	157,470	30,370		66,405	66,405
Other revenues	80,000	101,526	21,526			-
Total revenues	<u>5,429,887</u>	<u>5,516,911</u>	<u>87,024</u>	<u>228,888</u>	<u>366,649</u>	<u>137,761</u>
EXPENDITURES (Notes 1 and 15)						
Municipal council	185,005	152,876	32,129			
Offices:						
Administrative Services	206,517	204,302	2,215			
Mayor	278,830	276,339	2,491			
Departments:						
Civil Defense	275,324	225,272	50,052			
Finance	1,471,938	1,425,032	46,906			
Health	550,922	550,401	521			
Public Works	1,979,087	2,008,266	(29,179)			
Recreation	235,098	232,578	2,520			
Personnel	193,301	192,340	961			
Secretary	53,865	52,858	1,007			
Debt service; principal and interest payment		-	-	<u>228,888</u>	<u>214,878</u>	<u>14,010</u>
Total expenditures	<u>5,429,887</u>	<u>5,320,264</u>	<u>109,623</u>	<u>228,888</u>	<u>214,878</u>	<u>14,010</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>\$ -</u>	<u>\$ 196,647</u>	<u>\$ 196,647</u>	<u>\$ -</u>	<u>\$ 151,771</u>	<u>\$ 151,771</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Patillas, Puerto Rico (Municipality) was incorporated in 1811. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 12 members. The members of these branches are elected every four years in the Puerto Rico general elections.

b. Summary of Significant Accounting Policies

The accounting policies of the Municipality are in accordance with the generally accepted accounting principles applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant policies:

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

a) Governmental Funds

i. General Funds

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

ii. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

iv. Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

b) Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

c) 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:

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

d) Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. General Fund appropriations for recurrent and ordinary functions of the Municipality.

ii. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

9) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budgetary Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

**Scope of Public Service
Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality of Patillas indicate that the reporting entity consists of all funds and accounts groups included in the combined

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

10) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

2. CASH AND SHORT-TERM INVESTMENTS

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in one bank located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

b. Cash with Fiscal Agents

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2001, the balance of cash retained by the Government Development Bank amounted to \$1,365,820.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2001, the balance of cash retained by the Government Bank available for the acquisition of real property amounted to \$24,100.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

3. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.08% for real property and 6.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	< .20% >	< .20% >
Total	<u>8.08%</u>	<u>6.08%</u>

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of less than \$3,500, for which no payment

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the Municipal Revenues Collection Center.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

4. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2001. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Patillas, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Patillas are as follows:

Savings and loans associations	=	1.25%
Financing institution	=	1.50%
Other organizations	=	.30%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$324,084, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

6. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in its future.

The Municipality's management has estimated its real property and other fixed assets as follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Retirement</u>	<u>Adjustment</u>	<u>Balance June 30, 2001</u>
Real property	\$3,442,596	\$ -	\$ -	\$3,956,569	\$ 7,399,165
Vehicles, equipment, and furniture	3,187,439	196,337	-	(345,083)	3,038,693
Construction in progress	<u>2,473,361</u>	<u>-</u>	<u>-</u>	<u>(896,332)</u>	<u>1,577,029</u>
Total general fixed assets	<u>\$9,103,396</u>	<u>\$196,337</u>	<u>\$ -</u>	<u>\$2,715,154</u>	<u>\$12,014,887</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
CRIM	\$102,556	\$ -	\$102,556
Authority of Electric Energy	516,273	-	516,273
HUD - SBGP Program	<u>-</u>	<u>132,439</u>	<u>132,439</u>
Total	<u>\$618,829</u>	<u>\$132,439</u>	<u>\$751,268</u>

8. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	<u>General Fund</u>
Water and Sewer Authority	\$ 12,119
Electric Power Authority	470,355
General Service Administration	3,067
Retirement System	17,345
Municipality of Arroyo	13,820
Puerto Rico Telephone Company	<u>1,220</u>
	<u>\$517,926</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

9. GENERAL LONG-TERM DEBTS

The general long-term debts' transactions as of June 30, 2000 are as follows:

Balance July 1, 2000	\$1,567,936
Payments	(263,750)
Adjustments	<u>5,002</u>
 Balance June 30, 2001	 <u>\$1,309,188</u>

General long-term debt obligations at June 30, 2001 are as follows:

Bonds

\$525,000 series of 1987, payable in annual installments of \$12,000 to \$37,000 until January 1, 2009, interest at 5%.	\$ 247,000
\$275,000 series of 1988, payable in annual installments of \$13,750 until July 1, 2006, interest at 8%.	72,188
\$2,500,000 series of 1986, payable in annual installments of \$105,000 to \$445,000 until July 1, 2006, interest from 4.37% to 8%.	<u>630,000</u> <u>949,188</u>

Notes Payable

\$400,000 series of 1997, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest from 6% to 8%.	<u>360,000</u>
	<u>\$1,309,188</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The annual requirements for the amortization of general long-terms at June 30, 2001, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2002	\$ 159,750
2003	160,750
2004	161,750
2005	163,750
2006	164,750
2007-2011	318,438
2012-2016	140,000
2017	<u>40,000</u>
	<u>\$1,309,188</u>

As described in Note 3, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

10. RETIREMENT PLAN

a. Plan Description

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The Systems provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service of members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2001 were \$192,368 and \$191,951, respectively. The Municipality's payroll for employees covered by ESR was \$1,973,786. The Municipality total payroll for all employees was \$2,654,493.

c. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information on funding progress for the three last years is presented below:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net assets available for benefits as a percentage of total pension benefit obligation	N/A	N/A	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll	N/A	N/A	N/A
Employer contributions (not actuarial determined) as a percentage of annual covered payroll	9%	9%	9%

N/A = Not available

Trend information prior to 1999 is not available

For a ten-year trend information, refer to the separately issued financial statements of the Employee's Retirement System as of and for the year ended June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

11. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that it is probable that a liability will be incurred in a future, and the estimate loss would be approximately a total of \$494,109.

12. COMMITMENTS

The Municipality of Patillas had several outstanding or planned construction projects as of June 30, 2001. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$594,661.

13. LEASES

Leasing arrangements with the Municipality as lessor are as follows:

- a. The Municipality leases spaces in the Market Place under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2001 was approximately \$102,045.
- c. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

14. BUDGETARY COMPARISONS

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles.

The principal difference between budgetary basis and generally accepted accounting principles, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by generally accepted accounting principles.
- c. Under generally accepted accounting principles, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles basis	\$5,673,956	\$6,084,981
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	244
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	(49,774)
Plus advances of property taxes recorded as revenue on the budgetary basis	594,121	-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Revenues</u>	<u>Expenditures</u>
Plus transfer in/out	\$ 68,443	\$ 211,911
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	(696,677)	(594,121)
Revenues and expenditures not recorded as revenue or expense on the budgetary basis.	(<u>122,932</u>)	(<u>332,977</u>)
Budgetary basis	<u>\$5,516,911</u>	<u>\$5,320,264</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily the same fiscal year of the Municipality. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

15. SUBSEQUENT EVENT

The New Governmental Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of the long-awaited statement on the financial reporting model project. GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," makes dramatic changes to the way state and local governments report their finances to the public. Issuance of the statement is the culmination of an extended due process period, including the issuance of a preliminary views document and exposure draft and conducting public hearings and focus groups.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Under the new reporting model, general purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management's discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements.
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

The Statement will first be effective for governments with annual revenues exceeding \$100 million for fiscal years beginning after June 15, 2001; for those with revenues of \$10 million to \$100 million, years beginning after June 15, 2002; and for those with revenues of less than \$10 million, years beginning after June 15, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct programs:		
Section 8-Existing	14.857	\$ 55,265
Section 8-Vouchers	14.855	192,525
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-State Program		
SBGP	14.228	<u>4,402,375</u>
Subtotal U.S. Department of HUD		<u>4,650,165</u>
U.S. Federal Emergency Management Agency (FEMA)		
Public Assistance Grants	83.544	<u>59,237</u>
Subtotal U.S. FEMA		<u>59,237</u>
U.S. Department of Justice		
Pass-through the Governor's Office of Community Oriental Policing Services		
Trops to Cops	16.711	<u>147,363</u>
Subtotal U.S. Department of Justice		<u>147,363</u>
TOTAL		<u>\$4,856,765</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Patillas' federal award programs presented on the modified accrual basis of accounting in accordance with generally accepted accounting principles.



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Agustín Rodríguez Nieves

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division
NACVA

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

To the Honorable Mayor
and Municipal Assembly
Municipality of Patillas
Patillas, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Patillas as of and for the year ended June 30, 2001, and have issued our report thereon dated December 18, 2001, which was qualified because the working papers of prior year auditor was not available for observation we were unable to satisfy ourselves about fixed assets beginning balance. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Patillas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Patillas, in a separate letter dated December 18, 2001.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 18, 2001

The stamp 1776283 was affixed
to the original of this report



Ortiz, Rodriguez, Rivera & Co.



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
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Members:
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Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division
NACVA

**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**

To the Honorable Mayor
and Municipal Assembly
Municipality of Patillas
Patillas, Puerto Rico

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Patillas' 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 Patillas' compliance with those requirements.

In our opinion, Municipality of Patillas 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.

Internal Control over Compliance

The management of Municipality of Patillas 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 Municipality of Patillas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 18, 2001

Ortiz, Rodriguez, Rivera & Co.

The stamp 1776284 was affixed
to the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Patillas.
- b. There were no reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Patillas were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Patillas express an unqualified opinion.
- f. No audit findings relation to the major federal award programs for Municipality of Patillas.
- g. The programs tested as major programs included:
 - Community Development Block Grant - States Program - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Patillas was determined to be a low-risk audit.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PATILLAS
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG CFDA No. 14.228	Condition 2000-01 During our audit, we found that the Municipality disbursed federal funds between 7 to 27 days after the receipt of federal funds.	Condition was corrected.

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

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO: Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersville, IN 47132

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

1. Fiscal period ending date for this submission Month Day Year 6 / 30 / 01 Fiscal Period End Dates Must Be On or After January 1, 2001		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - Months 2 <input type="checkbox"/> Biennial		4. Date received by Federal clearinghouse FEDERAL GOVERNMENT USE ONLY	

5. Employer Identification Number (EIN) b. Are multiple EINs covered in this report? 1 Yes 2 No

a. Auditee EIN:

6	6	0	4	3	3	4	9	2
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 If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)

6. AUDITEE INFORMATION

a. Auditee name
Municipality of Patillas

b. Auditee address (Number and street)
PO Box 698
City
Patillas
State ZIP + 4 Code
PR 00723-0698

c. Auditee contact
Name
Mr. Aladino Andújar Cordero
Title
Finance Director

d. Auditee contact telephone
(787) 839 - 2005

e. Auditee contact FAX (Optional)
() -

f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
Ortiz, Rodríguez, Rivera & Co.

b. Auditor address (Number and street)
Suite 152, PO Box 70250
City
San Juan
State ZIP + 4 Code
PR 00936-7250

c. Auditor contact
Name
Agustín Rodríguez, CPA
Title
Partner

d. Auditor contact telephone
(787) 756 - 8524

e. Auditor contact FAX (Optional)
(787) 274 - 0562

f. Auditor contact E-mail (Optional)

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

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

Signature of certifying official

Date
Month Day Year
03/21/02

Printed Name/Title of certifying official

Aladino Andújar Cordero Finance Director

Signature of auditor

Date
Month Day Year

Ortiz, Rodríguez, Rivera Co. 3/21/02

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
 1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1
9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.
- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No
3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5
4. Is any reportable condition reported as a material weakness? 1 Yes 2 No
5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No
3. What is the dollar threshold to distinguish Type A and Type B programs? (\$ ___ .520(b)) \$ 300,000
4. Did the auditee qualify as a low-risk auditee? (\$ ___ .530) 1 Yes 2 No
5. Is a reportable condition disclosed for any major program? (\$ ___ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7
6. Is any reportable condition reported as a material weakness? (\$ ___ .510(a)(1)) 1 Yes 2 No
7. Are any known questioned costs reported? (\$ ___ .510(a)(3) or (4)) 1 Yes 2 No
8. Was a Summary Schedule of Prior Audit Findings prepared? (\$ ___ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)
- | | | | |
|--|---|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 98 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 18 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input checked="" type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

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

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

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

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

PART III FEDERAL PROGRAMS - Continued

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
CFDA Number (a)			Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²								
1	4	857	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Section 8 - Rental Certificate Program	\$ 55,265 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	0	N/A
1	4	855	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Section 8 - Rental Voucher Program	\$ 192,525 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	0	N/A
1	4	228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Community Development Block Grant - State Program	\$4,402,375 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	0	N/A
8	3	544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Public Assistance Grants	\$ 59,237 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	0	N/A
1	6	711	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Oriental Policing Services Trops to Cops	\$ 147,363 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	0	N/A
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED					\$4,856,765 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

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

⁴ N/A for NONE



Hon. Benjamín Cintrón Lebrón

Oficina del Alcalde

Apartado 698

Patillas, Puerto Rico 00723



25 de marzo de 2002

02 MAR 26 AM 8:58
Com. del Comisionado
de Asuntos Municipales

O C A M
P O Box 70167
San Juan, PR 00936-8167

El Municipio de Patillas realizó la auditoría correspondiente al Año Fiscal 2001 según las disposiciones que establece los Artículos 7.010 y 8.016 de la Ley Núm. 81 del 30 de agosto de 1991; Ley de Municipios Autónomos del Estado Libre Asociado de P.R.

Es nuestra responsabilidad cumplir con esta disposición de Ley por lo cual le estamos acompañando una copia certificada por la firma de CPA's; Ortiz, Rodríguez, Rivera & Co. para su conocimiento y acción correspondiente.

Atentamente,

Benjamín Cintrón
Alcalde

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

02 MAR 26 AM 9:26

RECIBIDO
UNIDAD DE CORREO