

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SAN GERMAN**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

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DE ASUNTOS MUNICIPALES  
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**MUNICIPALITY OF SAN GERMAN, PUERTO RICO**  
**INDEPENDENT AUDITOR'S REPORT ON**  
**GENERAL PURPOSE COMBINED FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

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

**MUNICIPALITY OF SAN GERMAN, PUERTO RICO  
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GENERAL PURPOSE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
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**(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE  
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)**

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**I**  
**FINANCIAL**

*Kenneth Vargas*

CERTIFIED PUBLIC ACCOUNTANT

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## INDEPENDENT AUDITORS' REPORT

Hon. Mayor and Municipal Council  
Municipality of San Germán  
San Germán, Puerto Rico

I have audited the accompanying general purpose financial statements of the Municipality of San Germán, Puerto Rico, as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's of management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

Except as discussed in the following paragraphs, I conducted the audit in accordance with generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 6, the Municipality has not maintained complete and adequate records of its general fixed assets. Accordingly, I do not express an opinion as to the general fixed assets group of accounts and the related investment therein, which are stated in the accompanying general-purpose financial statements at June 30, 2001 in the amount of \$37,753,452.

In my opinion, except for the effects of such adjustments if any, as might have been determined to be necessary had I been able to examine evidence regarding the general fixed assets group of accounts, and the matters regarding the Year 2000 issue, as explained in the above paragraphs, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of San Germán, Puerto Rico, as of June 30, 2001, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 14, 2002, on my consideration of the Municipality of San Germán, Puerto Rico internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My 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 of the Municipality of San Germán, Puerto Rico. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.



KENNETH VARGAS  
License 2251

Aguadilla, Puerto Rico  
March 14, 2002

Stamp number 1688075 of the  
Puerto Rico Society of  
Certified Public Accountants  
has been affixed to the  
original copy of this report.

**MUNICIPALITY OF SAN GERMAN  
COMBINED BALANCE SHEET - ALL FUND TYPES  
AND ACCOUNT GROUPS  
JUNE 30, 2001**

	Governmental Fund Types				Account Group		Total
	General	Special Revenue	Debt Service	Capital Projects	General fixed Assets	General Long-term Debt	(Memorandum only)
<b>ASSETS</b>							
CASH	\$2,495,539	\$1,921,322	\$ --	\$3,056,798	\$--	\$ --	\$7,473,659
CASH WITH FISCAL AGENT (NOTE 2)	--	--	2,650,901	--	--		2,650,901
<b>RECEIVABLES:</b>							
Accounts Receivable	520,417	21,873	--	--	--	--	542,290
Rent Receivable	40,335	--	--	--	--	--	40,335
Municipal Tax	365,743	--	--	--	--	--	365,743
Interest Receivable	42,088	--	7,847	--	--	--	49,935
DUE FROM OTHER AGENCIES (NOTE 5)	816,724	--	66,993	--	--	--	883,717
DUE FROM OTHER FUNDS (NOTE 6)	221,722	13,281	--	--	--	--	235,003
PROPERTY PLANT AND EQUIPMENT (NOTES 1 AND 7)	--	--	--	--	37,753,452	--	37,753,452
<b>OTHER ASSETS:</b>							
Amount to be provided for payment of:							
General Obligations bonds and notes payable (Note 11)	--	--	--	--	--	5,028,530	5,028,530
Accrued vacations (Note 12)	--	--	--	--	--	1,683,535	1,683,535
AMOUNT AVAILABLE IN DEBT SERVICE FUND (NOTES 8 AND 11)	--	--	--	--	--	2,650,901	2,650,901
<b>TOTAL ASSETS</b>	<u>\$4,502,568</u>	<u>\$1,956,476</u>	<u>\$2,725,741</u>	<u>\$3,056,798</u>	<u>\$37,753,452</u>	<u>\$9,362,966</u>	<u>\$59,358,001</u>

See notes to financial statements

**MUNICIPALITY OF SAN GERMAN  
COMBINED BALANCE SHEET - ALL FUND TYPES  
AND ACCOUNT GROUPS  
JUNE 30, 2001**

	Governmental Fund Types				Account Group		Total
	General	Special Revenue	Debt Service	Capital Projects	General fixed Assets	General Long-term Debt	(Memorandum only)
<b>LIABILITIES AND FUND EQUITY</b>							
<b>LIABILITIES</b>							
Accounts payable	\$467,878	\$374,852	\$--	\$326,591	--	--	\$1,169,321
Due to other agencies (Note 9)	17,710	--	--	--	--	--	17,710
Bonds payable (Notes 8 and 11)	--	--	--	--	--	6,745,431	6,745,431
Notes payable (Notes 8 and 11)	--	--	--	--	--	934,000	934,000
Deferred revenues (Note 10)	1,656,692	--	--	--	--	--	1,656,692
Accrued vacations (Note 12)	--	--	--	--	--	1,683,535	1,683,535
Due to other Funds (Note 6)	--	235,003	--	--	--	--	235,003
	<u>2,142,280</u>	<u>609,855</u>	<u>--</u>	<u>326,591</u>	<u>--</u>	<u>9,362,966</u>	<u>12,441,692</u>
<b>FUND EQUITY</b>							
Investment in general Fixed Assets (Note 7)	--	--	--	--	37,753,452	--	37,753,452
Reserved for:							
Encumbrances (Note 1)	326,318	220,107	--	809,580	--	--	1,356,005
Unreserved:							
Designated for debt service	--	--	2,725,741	--	--	--	2,725,741
Undesignated (deficit)	<u>2,033,970</u>	<u>1,126,514</u>	<u>--</u>	<u>1,920,627</u>	<u>--</u>	<u>--</u>	<u>5,081,111</u>
Total fund equity (deficit)	<u>2,360,288</u>	<u>1,346,621</u>	<u>2,725,741</u>	<u>2,730,207</u>	<u>37,753,452</u>	<u>--</u>	<u>46,916,309</u>
Total liabilities and fund equity	<u>\$4,502,568</u>	<u>\$1,956,476</u>	<u>\$ 2,725,741</u>	<u>\$3,056,798</u>	<u>\$ 37,753,452</u>	<u>\$9,362,966</u>	<u>\$59,358,001</u>

See notes to financial statements

**MUNICIPALITY OF SAN GERMAN  
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 only)
<b>REVENUES:</b>					
Property taxes (Note 8)	\$3,617,875	\$---	\$1,203,773	---	\$4,821,648
Municipal Tax (Note 3)	1,882,475	---	---	---	1,882,475
Grants and contributions (Note 4)	3,788,923	4,654,720	---	---	8,443,643
Licenses and permits	238,265	---	---	---	238,265
Rent	420,529	---	---	---	420,529
Interest	580,698	184	130,435	---	711,317
Other	432,447	189,469	---	---	621,916
	<u>10,961,212</u>	<u>4,844,373</u>	<u>1,334,208</u>	<u>---</u>	<u>17,139,793</u>
<b>EXPENDITURES:</b>					
General government	4,799,201	2,873,383	---	---	7,672,584
Public works	3,526,164	2,260,310	---	---	5,786,474
Capital outlay	---	---	---	2,449,595	2,449,595
Health and Sanitation	1,652,582	---	---	---	1,652,582
Public Safety	643,839	---	---	---	643,839
Welfare	---	331,926	---	---	331,926
Sports and recreations	147,522	---	---	---	147,522
Debt service (Notes 8, 10 and 11):					
Property taxes advances	---	---	2,910,390	---	2,910,390
Principal retirement	---	---	682,069	---	682,069
Interest Payment	---	---	470,187	---	470,187
	<u>10,769,308</u>	<u>5,465,619</u>	<u>4,062,646</u>	<u>2,449,595</u>	<u>22,747,168</u>
Excess of revenue over (under) expenditures	<u>191,904</u>	<u>(621,246)</u>	<u>(2,728,438)</u>	<u>(2,449,595)</u>	<u>(5,607,375)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Property taxes advances (Note 8)	2,910,390	---	---	---	2,910,390
Operating transfer in	---	2,150,583	2,992,755	1,666,394	6,809,732
Operating transfer out	3,008,338	1,666,394	127,354	2,007,646	6,809,732
Total other financing sources (uses)	<u>(97,948)</u>	<u>484,189</u>	<u>2,865,401</u>	<u>(341,252)</u>	<u>2,910,390</u>
Excess of revenues and other financing sources over (under) expenditures	<u>93,956</u>	<u>(137,057)</u>	<u>136,963</u>	<u>(2,790,847)</u>	<u>(2,696,985)</u>
TOTAL FUND EQUITY (DEFICIT) - JULY 1, 2000 AS RESTATED (NOTE 15)	<u>2,266,332</u>	<u>1,483,678</u>	<u>2,588,778</u>	<u>5,521,054</u>	<u>11,859,842</u>
TOTAL FUND EQUITY (DEFICIT) - JUNE 30, 2001	<u><u>\$2,360,288</u></u>	<u><u>\$1,346,621</u></u>	<u><u>\$2,725,741</u></u>	<u><u>\$2,730,207</u></u>	<u><u>\$9,162,857</u></u>

See notes to financial statements

**MUNICIPALITY OF SAN GERMAN**  
**STATEMENT OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL**  
**JUNE 30, 2001**

	General Fund			Debt Service Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
Property taxes	\$707,485	\$3,617,875	\$2,910,390	\$1,172,207	\$1,203,773	\$31,566
Municipal Tax	2,150,000	1,882,475	(267,525)	--	--	--
Grants and contributions	2,853,770	3,788,923	935,153	--	--	--
Licenses and permits	707,300	238,265	(469,035)	--	--	--
Rent Proceeds	408,642	420,529	11,887	--	--	--
Interest	462,000	580,698	118,698	--	130,435	130,435
Other	845,067	432,447	(412,620)	--	--	--
	<u>8,134,264</u>	<u>10,961,212</u>	<u>2,826,948</u>	<u>1,172,207</u>	<u>1,334,208</u>	<u>162,001</u>
<b>EXPENDITURES:</b>						
General government	4,815,351	4,799,201	16,150	--	--	--
Public works	3,596,245	3,526,164	70,081	--	--	--
Health and Sanitation	1,708,031	1,652,582	55,449	--	--	--
Public Safety	648,939	643,839	5,100	--	--	--
Sports and recreations	153,536	147,522	6,014	--	--	--
Debt service:						
Property taxes	--	--	--	--	2,910,390	(2,910,390)
Principal retirement	--	--	--	542,500	682,069	(139,569)
Interest Payment	--	--	--	354,952	470,187	(115,235)
Other	--	--	--	--	--	--
	<u>10,922,102</u>	<u>10,769,308</u>	<u>152,794</u>	<u>897,452</u>	<u>4,062,646</u>	<u>(3,165,194)</u>
Excess of revenue over (under) expenditures	<u>(2,787,838)</u>	<u>191,904</u>	<u>2,979,742</u>	<u>274,755</u>	<u>(2,728,438)</u>	<u>(3,003,193)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfer in	--	--	--	2,987,488	2,992,755	5,267
Operating transfer out	99,825	3,008,338	(2,908,513)	--	127,354	(127,354)
Property Tax Advances	2,887,663	2,910,390	22,727	--	--	--
Total financing sources (uses)	<u>2,787,838</u>	<u>(97,948)</u>	<u>(2,885,786)</u>	<u>2,987,488</u>	<u>2,865,401</u>	<u>(122,087)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	<u>\$--</u>	<u>\$93,956</u>	<u>\$93,956</u>	<u>\$3,262,243</u>	<u>\$136,963</u>	<u>(\$3,125,280)</u>

See notes to financial statements

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

- A. The Municipality of San German, Puerto Rico, is a public legal corporation with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico. It operates under the Law Number 81 of August 30, 1991, known as "Autonomous Municipalities Law 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 is comprised of the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly. The members of these branches are elected in the general elections of Puerto Rico for a four year period.

- B. The general purpose combined financial statements of the Municipality are in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant accounting policies:

**1. Reporting Entity**

The general-purpose combined financial statements present the financial position of the various fund types and account groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and members of the Municipal Council. In evaluating the Municipality as a reporting entity, management has addressed all

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED):**

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 criterion 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:

**Manifestation of Oversight Responsibility:**

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

**Accounting 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 of the unit  
Any other relationship which, in substance, implies control or dependency.

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 San Germán, Puerto Rico indicates that the reporting entity

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

consists of all funds and account groups included in the combined balance sheet, therefore no organizations, activities of functions were excluded from the reporting entity.

**2. 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 comprise it's assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. 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 in this report, into three generic fund types and other funds category, as follows:

**GOVERNMENTAL FUNDS**

Governmental funds are those through which most governmental functions of the Municipality are financed. The acquisition, use, and balances of the Municipality's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the Municipality's governmental fund types:

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

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Special Revenue Fund** - Special Revenue fund is 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.

**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, interest, and related costs.

**Capital Project Fund** - Capital Project fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund).

**ACCOUNT GROUPS**

Account groups are not funds. They do not reflect available financial resources and related liabilities. These are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt obligations respectively. The following are the Municipality's account groups:

**General Fixed Assets Account Group** - This group of accounts is established to account for all fixed assets of the Municipality.

General fixed assets are recorded as expenditures in the Governmental Funds and are capitalized at cost in the General Fixed Assets Group of accounts. Donated general fixed assets are recorded at fair market value of the asset at the time it was donated. Depreciation is not recorded in the general fixed assets account groups (See note 6).

**General Long-Term Debt Account Group** - This group of accounts is established to account for all long-term debts of the Municipality.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**BUDGETARY CONTROL**

The Municipality's Annual Budget represents departmental appropriations recommended by the Mayor and the means of financing them. Prior to May 31 of each fiscal year, the Mayor submits to the Municipal Assembly a proposed budget for the following fiscal year, which starts on July 1 of each year. The proposed budget is available for public inspection prior to its approval. The Commissioner of Municipal Affairs examines the budget to verify if it complies with appropriate laws and sends it to the Mayor for any comments or recommendation. Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance. Appropriations in the Municipality budget consist of the following:

General Fund appropriations for recurrent and ordinary function of the Municipality.

Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorizations because they are continuing appropriations.

**3. Basis of Accounting**

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related liability is incurred.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

Exceptions to this general rule include; (1) accumulated unpaid sick leave and other employee amounts which are not accrued; and (2) principal and interest on long-term debt, which is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded. For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center (C.R.I.M.) of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years.

Licenses and permits, fines and forfeits and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

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

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**4. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration.

Where the appropriations lapse at year-end, these will be honored by the Municipality. Under generally accepted accounting principles, encumbrances outstanding at year end are reported as reservations of fund balance and they do not constitute expenditures of liabilities since the commitments will be honored during subsequent year.

**5. Inventories**

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

**6. Fixed Assets**

General Fixed Assets are recorded as expenditures in the Governmental Funds and are capitalized at cost in the General Fixed Assets Group of Accounts. Donated general fixed assets are recorded at fair market value of the asset at the time they were donated. Depreciation is not recorded in the general fixed assets account groups.

As indicated in the Auditor's Report, the information in the general fixed assets group is **unaudited** as described more fully in Note 6.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**7. Insurance**

The Municipality has insurance coverage for the public facilities and certain officials are covered by a fidelity bond. The Secretary of the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

**8. Total column (Memorandum only)**

The amounts presented under this column represents the aggregate amount of the different types of funds and account groups. The total under this column was not obtained from elimination's or consolidations, accordingly, they do not present consolidated information.

**2. CASH AND INVESTMENTS**

**A. Cash in bank and investments**

To facilitate better management of the Municipality's resources substantially, all cash is combined in pooled operating accounts. The amounts reflected as cash in the balance sheet represent the individual funds' equity in pooled cash balance, except restricted funds held by the Municipal Revenue collection Center for repayment of principal and interests on general long-terms obligations, and federal financial assistance.

The Municipality's deposits at year-end were entirely covered by Federal depository insurance or by collateral provided by the banks and held by the Department of Treasury of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**2. CASH AND INVESTMENT (CONTINUED)**

As of June 30, 2001, the Municipality had short-term investments of \$3,340,821 in certificates of deposits. The Municipality records all interest revenues earned from investment activities in the General Fund.

**B. Cash with fiscal agents**

An annual special tax of .65% of the assessed value of all real and personal properties is 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 Revenue Collection Center as agent for the Municipality and are retained by the Department for debt service purposes. At June 30, 2001, the balance of cash retained by the Municipal Revenue Collections Center amounted to \$2,650,901.

**3. MUNICIPAL TAX**

Municipal tax receivable are recorded in the fiscal year in which payment is due and, accordingly, represents taxes which are due and uncollected at June 30, 2001.

The annual municipal tax is levied each year based on the prior year's gross income of all commercial and industrial organizations doing business in the Municipality of San Germán which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico.

The annual return of business volume should be filed on April 15 of each year and payable in two equal installments due on June 30 and December 31 of each year. The rate for municipal tax determination in the Municipality of San Germán is 1.5% for savings and loans associations, 1.5% for financing institutions and .5% for other organizations based on gross revenues.

The collections in advance of municipal tax of the next year or fiscal period are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$1,656,692 corresponding to the next fiscal year municipal tax revenues. See note 10.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**4. GRANTS AND CONTRIBUTIONS**

Represent intergovernmental revenue sources which consist of contributions received from certain quasi-public corporation of the Government of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority, Puerto Rico Telephone Company and from certain federal agencies, such as U.S. Department of HUD.

Concessions and subsidies received from the Government of Puerto Rico include, among others, a general subsidy for general operation and for the financing of capital improvements.

Contributions received are in lieu of tax payments from the quasi-public corporation.

These inter-governmental revenues are recorded in the General Fund, except those related with capital improvements which are recorded in the Capital Projects fund and those legally restricted to expenditures for specified purpose which are recorded in the Special Revenue Fund.

**5. DUE FROM OTHER AGENCIES**

Represents amounts receivable from grants and contributions and other revenues from local and federal agencies as follows:

<b>A) GENERAL FUND</b>	
Department of Education	\$ 59,000
C.R.I.M.	496,915
Electric Power Authority (Net)	<u>260,809</u>
	<u>\$816,724</u>

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**6. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivable and payable balances at June 30, 2001 are as follows:

	Interfund	
	Receivable	Payable
General Fund	\$ 221,722	\$ -
Special Revenue Fund	13,281	235,003
	\$ 235,003	\$235,003

**7. FIXED ASSETS**

The Municipality's fixed assets records are not being kept following the procedures and practices prescribed by Generally Accepted Accounting Principles. The Municipality does not maintain complete records of its general fixed assets, therefore they are not adequate to determine the correctness of the amount invested in general fixed assets. Hence, that amounts presented in the general fixed assets group of the general purpose financial statements are **unaudited**. The Municipality is in the process of 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 its subsequent valuation. Once this process is completed, the Municipality will be able to determine its real investment in general fixed assets.

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures on various governmental funds and accounted for in the general fixed assets account group. These are capitalized at cost or, if donated, at the estimated fair market value of the asset at the date the asset is donated. Maintenance, repairs and minor renewals are expensed as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off previous authorization of said department.

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**7. FIXED ASSETS (CONTINUED)**

Depreciation is not provided on general fixed assets. Certain substructure or improvements constructed, such as roads, streets, gutter, curbs, sidewalks, and drainage, are not recorded in this group of accounts.

Following is an unaudited summary of changes in general fixed assets for the year ended June 30, 2001.

	Balance July 1, <u>2000</u>	Additions and/or <u>Adjustments</u>	Retirements and/or <u>Adjustments</u>	Balance June 30, <u>2001</u>
Land	\$ 2,517,179	\$ -	\$ -	\$ 2,517,179
Buildings and others structures	23,703,536	-	-	23,703,536
Machinery vehicles and equipment	6,388,430	288,448	-	6,676,878
Construction in progress	<u>728,812</u>	<u>-</u>	<u>-</u>	<u>728,812</u>
	<u>\$ 33,337,957</u>	<u>\$ 288,448</u>	<u>\$ -</u>	<u>\$33,626,405</u>

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**8. PROPERTY TAX ADVANCES**

The Municipal Revenue Collection Center of the Government of the Commonwealth of Puerto Rico (C.R.I.M.) is responsible for the assessment of all the real and personal property located in the Municipality and of the administration and collection of the related taxes.

Property taxes are levied annually over the assessed value of the property at the beginning of the calendar year, which amounts to 4.58% of the personal property and 6.58% of the real property values. The assessed value of real property evolves from the current value at the date of the assessment. The Municipality grants retailers with a volume of business of less than \$150,000 full personal property tax exemption up to \$50,000 of the assessed value of the property. Also, property tax law grants, under certain circumstances, a tax exemption (exonerated) for the first \$15,000 of the assessment made to properties occupied by their owner. Nevertheless, the Municipal Revenue Collection Center pays the Municipality the basic tax related to those \$15,000 assessment, except for properties that have an assessed value of less than \$3,500, which have full exemption.

In addition of the basic property tax, an additional special property tax (.75%) is levied against taxpayers. The basic property tax is used for general purpose and is accounted for in the General Fund. The additional special property tax is retained by the Municipal Revenue Collection Center (cash with fiscal agent) and is used and designated for debt services and accounted for in the Debt Service Fund.

The Municipal Revenue Collections Center notifies annually to the Municipality, the estimated basic and additional property taxes that they expect to collect in the next fiscal year. The basic property tax is received by the Municipality through advances from the Municipal Revenue Collection Center. When the Municipal Revenue Collection Center collects the property taxes, they are recorded against the respective advances.

The non-exonerated portion of the basic property tax advanced by the Municipal Revenue Collections Center to the Municipality is recorded in the General Fund as other financing sources and as a debt in the General Long-Term Debt Account Group. When the property tax is collected and notified to the Municipality by the Municipal Revenue Collections Center, they are recorded in the General fund as revenue and as expenditures for Debt Service. At the same time, the debt is recorded in the General Long-Term Debt Account Group.

**MUNICIPALITY OF SAN GERMAN  
 NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED  
 JUNE 30, 2001**

**8. PROPERTY TAX ADVANCES (CONTINUED)**

For the fiscal year ended June 30, 2001, the movement of advances of property taxes, was as follows.

Balance, July 1, 2000	\$ -0-
Property tax advances (non-exonerated portion)	2,910,390
Less: Collections of property taxes applied to debt	<u>2,910,390</u>
	<u>\$ -0-</u>

The additional special property tax is recorded as revenue in the Debt Service Fund when collected, and notified to the Municipality by the Municipal Revenue Collections Center (C.R.I.M.).

**9. DUE TO OTHER AGENCIES**

The balance of this account represents the following:

**(A) GENERAL FUND:**

Puerto Rico Telephone Co.	\$ 7,042
Aqueduct and Sewer Authority	8,781
General Service Administration	<u>1,887</u>
	<u>\$ 17,710</u>

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**10. DEFERRED REVENUES**

The balance of this account represents the following:

<b>(A) GENERAL FUND</b>	
Municipal tax received in advance (See note 3)	<u>\$1,656,692</u>

**11. GENERAL LONG-TERM DEBTS**

General Long-Term Debts payable as of June 30, 2001, which constitute a first claim on available Municipality revenues and which are secured by the good faith credit and taxing power of the Municipality, are as follows:

**A. GENERAL OBLIGATIONS BONDS**

\$400,000 series of 1982-83, payable in annual installments which range from \$9,000 to \$27,000 plus interest at 5% interest rate. Bonds mature in July 1, 2007.	\$ 144,204
\$765,000 series of 1986-87, payable in annual installments which range from \$16,000 to \$60,000 plus interest at 6.375% interest rate. Bonds mature in July 1, 2011.	458,000
\$860,000 series of 1989-90, payable in annual installments which range from \$25,000 to \$105,000 plus interest at 8.6% to 6.23% interest rate. Bonds mature in January 1, 2004.	365,000

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**11. GENERAL LONG-TERM DEBTS (CONTINUED)**

\$400,000 series of 1987-88, payable in annual installments which range from \$7,000 to 32,000 plus interest at 6.125% interest rate. Bonds mature in July 1, 2013.	267,000
\$616,000 series of 1986-87, payable in annual installments which range from \$16,000 to \$45,000 plus interest at 5% interest rate. Bonds mature in July 1, 2012.	388,227
\$382,000 series of 1991-92, payable in annual installments which range from \$34,000 to \$53,000 plus interest at 5.625% interest rate. Bonds mature in July 1, 2002.	53,000
\$3,500,000 series of 1995-96, payable in annual installments which range from \$70,000 to \$330,000 plus interest at 6.44% to 6.58% interest rate. Bonds mature in July 1, 2015.	3,055,000
\$2,100,000 series of 1999-2000, payable in annual installments which range from \$85,000 to \$235,000 plus interest at 7.29% to 8.00% interest rate. Bonds mature in July 1, 2013.	<u>2,015,000</u>
	<u>\$6,745,431</u>

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**11. GENERAL LONG-TERM DEBTS (CONTINUED)**

**B. SPECIAL OBLIGATION NOTES**

\$1,150,000 series of 1985-86, payable in annual installments of \$57,000 plus interest at 8.5% interest rate. Due 07/01/06.	\$ 345,000
\$500,000 series of 1996-97, payable in annual installments of \$85,000 to \$120,000 plus interest at 6% to 8% interest rate. Due 07/01/03.	325,000
\$390,000 series of 1996-97, payable in annual installments of \$48,000 to \$65,000 plus interest at 4.5% interest rate. Due 01/01/05.	239,000
\$35,000 series of 1999-2000, payable in annual installments of \$10,000 to \$15,000 plus interest ay 7.29% to 8% interest rate. Due 07/01/02.	<u>15,000</u>
	<u>\$ 934,000</u>

The following is a summary of general long term debt transactions for the year ended June 30, 2001:

	<u>Bonds</u>	<u>Notes</u>
Balance, July 1, 2000	\$7,182,000	\$1,179,500
Current additions	<u>-</u>	<u>-</u>
	7,182,000	1,179,500
Current payments	<u>436,569</u>	<u>245,500</u>
Balance, June 30, 2001	<u>\$6,745,431</u>	<u>\$ 934,000</u>

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**11. GENERAL LONG-TERM DEBTS (CONTINUED)**

The debt service requirements for the next years are as follows:

<u>Year ended June 30</u>	<u>Bonds</u>	<u>Notes</u>
2002	\$ 436,431	\$ 222,500
2003	409,000	235,500
2004	444,000	238,500
2005	482,000	122,500
2006	403,000	57,500
Thereafter	<u>4,571,000</u>	<u>57,500</u>
	<u>\$6,745,431</u>	<u>\$ 934,000</u>

As per Note 8, the Municipality levies an annual special tax of .75% of the assessed value of real property. 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 and retained by the Municipal Revenue Collections Center as agent for the Municipality.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**12. ACCRUED VACATIONS**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. The regular vacations can be accumulated to a maximum of 60 days at the end of a calendar year and for sick leave up to 90 days. Employees are entitled to payment of unused sick leave upon retirement if the employee has been employed in the government for at least ten years. The Municipality accrues a liability for compensated absences which meet the following criteria.

1. The Municipality's obligation relating to employees rights to receive compensation for future absences is attributable to employee's future services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonable estimated.

In accordance with the above criteria and requirements as established by GASB number 16, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources is included in the General Long-Term Debt Account Group. As of June 30, 2001, accrued vacations and sick leave amounted to \$1,683,535.

**13. RETIREMENT PLAN**

**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 system.

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**13. RETIREMENT PLAN (CONTINUED)**

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 System 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 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 amount of the annuity will be one and one-half percent of the average compensation multiplied by the numbers of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years creditable services 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 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.

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**13. RETIREMENT PLAN (CONTINUED)**

**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's contributions are 9.275% of gross salary. Contributions requirements are established by law. The Supplementation Plan contributions are 8.275% of gross salary. This the only choice available to Police, Firefighters and Mayors. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2001 were \$290,217 and \$290,043.

**14. FUND EQUITY (RESERVES AND DESIGNATIONS)**

- A. Reserved for encumbrances** - This reserve represents the portion of purchase orders and contracts awarded for which the goods or services have not yet been received at June 30, 2001.
- B. Designated for debt service** - In accordance with legal restrictions, these amounts are reserved for payments of principal and interest of general long-term debts maturing in later years. The resources for this reserve arise from the additional special property tax, as per Note 8.

**15. BEGINNING FUND BALANCE RESTATEMENT**

Beginning Fund Balance for General Fund has been restated for accounting adjustments.

Beginning Balance at July 1, 2000	\$1,109,394
Accounting adjustment	<u>1,156,938</u>
Beginning Balance as Restated	<u>\$2,266,332</u>

**MUNICIPALITY OF SAN GERMAN**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2001**

**16. CONTINGENCIES**

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome. In addition the Municipality is a defendant and/or co-defendant in several legal proceedings which are in the discovery stage. Some of these claims are covered by insurance. The final outcome of these claims cannot be determined by legal counsel with the information currently available. Accordingly, the financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

The Municipality receives federal grants for specific purpose that are subject to reviewed audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, it is believed that any required reimbursements would not be material.

**17. ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS**

According to the Environmental Protection Agency's (EPA) regulations, the Municipality must follow certain closure functions and post-closure monitoring and maintenance procedures in order to obtain the right to operate a new landfill. Consequently, the GASB Number 18 was promulgated for the governmental entities to comply with these regulations. The Municipality discontinued the operation and ceased to accept solid waste in its landfill in July 1993. The estimated closing costs are not presently available.

**MUNICIPALITY OF SAN GERMAN  
 NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED  
 JUNE 30, 2001**

**18. SUBSEQUENT EVENTS**

**Emission of Notes and Bonds**

The Municipal Assembly approved various resolutions authorizing the emission of Notes and Bonds for the purchase of equipments and acquisition of a Building. Following is a detail of the Resolutions approved:

<u>Resolution</u>	<u>Amount</u>
13	\$ 130,000
14	830,000
20	<u>1,435,000</u>
	<u>\$2,395,000</u>

**New Governmental Financial Reporting Model**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of GASB No. 34, ("Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments") which makes dramatic changes to the way state and local governments report their finances to the public.

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

1. Management's discussion and analysis.
2. Government-wide financial statements.
3. Fund Financial statements.
4. Notes to the financial statements.
5. Required supplementary information including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

**MUNICIPALITY OF SAN GERMAN  
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**18. SUBSEQUENT EVENTS (CONTINUED)**

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 those with revenues of less than \$10 million, years beginning after June 15, 2003.

**II**

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

**MUNICIPALITY OF SAN GERMÁN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HUD</u>		
Direct programs:		
Section 8 Housing Voucher Program	14.177	<u>310,407</u>
Passed through Municipal Services Administration:		
State Block Grant Program:		
Program Year 1995	14.219	\$ 230,218
Program Year 1997	14.219	180,411
Program Year 1998	14.219	488,890
Program Year 1999	14.219	436,064
Program Year 2000	14.219	<u>659,788</u>
Total State Block Programs		<u>1,995,371</u>
Total U.S. Department of HUD		2,305,778
U.S. Federal Emergency Management Agency Disaster Assistance		<u>266,830</u>
Total Federal Assistance		<u>\$2,572,608</u>

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

**MUNICIPALITY OF SAN GERMAN  
NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of San Germán, Puerto Rico, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in, or used in the preparation of, the general-purpose financial statements. The Municipality's reporting entity is defined in Note (1) (B) to the general purpose financial statements. Federal agencies as well as federal financial assistance passed through other government agencies are include on the schedule.

**2. BASIS OF ACCOUNTING**

- A. The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting, which is described in Note (1) (C) to the general purpose financial statements.
- B. The accompanying Schedule of Expenditures of Federal Awards is prepared From the Municipality's accounting records and is not intended to present Financial position or the results of operations.
- C. The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with generally accepted accounting principles.
- D. Expenditures are recognized in the accounting period in which the liability is Incurred, if measurable or when actually paid, whichever occurs first.

**3. FEDERAL CFDA NUMBER**

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

**MUNICIPALITY OF SAN GERMÁN  
NOTES TO THE SCHEDULE OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**4. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Federal financial assistance revenues and expenditures are reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Fund Type in the Municipality of San Germán, Puerto Rico general purpose financial statements.

**5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

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

<u>DESCRIPTION</u>	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECT</u>	<u>TOTAL</u>
Federal Programs Expenditures	\$1,494,249	\$1,078,359	\$2,572,608
Municipal expenditures	<u>3,971,370</u>	<u>1,371,236</u>	<u>5,342,606</u>
Total expenditures	<u>\$5,465,619</u>	<u>\$2,449,595</u>	<u>\$7,915,214</u>

**6. MAJOR PROGRAMS**

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

**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**

Hon. Mayor and Municipal Council  
Municipality of San Germán  
San Germán, Puerto Rico

I have audited the general purpose financial statements of the Municipality of San Germán, Puerto Rico, as of and for the fiscal year ended June 30, 2001, and have issued my report thereon dated March 14, 2002, which was qualified because insufficient audit evidence regarding the general fixed assets group of accounts. Except as discussed in the preceding sentence, I conducted my audit in accordance with generally accepted auditing standards 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 San Germán, Puerto Rico, general purpose financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs.

### **Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Municipality's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of the Municipality of San Germán, Puerto Rico, in a separate letter dated March 14, 2002.

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



KENNETH VARGAS, CPA  
License 2251

Aguadilla, Puerto Rico  
March 14, 2002

Stamp number 1688076 of the  
Puerto Rico Society of  
Certified Public Accountants  
has been affixed to the  
original copy of this report

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

Hon. Mayor and Municipal Council  
Municipality of San Germán  
San Germán, Puerto Rico

**Compliance**

I have audited the compliance of the Municipality of San Germán, Puerto Rico, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's Management. My responsibility is to express an opinion the Municipality's compliance based on my audit.

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

procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Municipality's compliance with those requirements.

In my opinion, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001. However, the results of my 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 findings and questioned costs.

### **Internal Control Over Compliance**

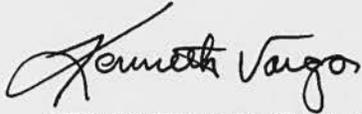
The management of the Municipality of San Germán, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my 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.

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

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



KENNETH VARGAS, CPA  
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Aguadilla, Puerto Rico  
March 14, 2002

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has been affixed to the  
original copy of this report

**III**

**FINDINGS AND QUESTIONED COSTS**

**MUNICIPALITY OF SAN GERMÁN  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 SUMMARY OF AUDITOR'S RESULTS  
 FOR THE FISCAL YEAR ENDED  
 JUNE 30, 2001**

**Financial Statements**

Type of auditor's report issued **Qualified**

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Reportable condition(s) identified that are not considered being material weaknesses?  Yes  Non Reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Reportable condition(s) identified that are not considered being material weaknesses?  Yes  Non Reported

Type of auditor's report issued on compliance for Major Programs: **Unqualified**

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

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.219	State Block Grant Program (SBGP)

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

Auditee qualified as low-risk auditee?  Yes  No

**MUNICIPALITY OF SAN GERMAN  
FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**QUESTIONED  
COSTS**

**Program**

**FEDERAL ASSISTANCE PROGRAMS**

**Finding Number 1**

During the examination of the personnel records it was observed that in most cases, certain important documentation such as medical certificates, certificates of birth, proof of academic background and other documents were missing.

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**Recommendation**

The personnel department should review all employee files in order to ascertain that they include the following documents:

- A. Employment application
- B. Medical certification
- C. Certificate of birth
- D. Sworn fidelity
- E. Proof of academic background
- F. Record of promotions and reclassifications
- G. Form 499-R-4 (income tax withholding statement)
- H. Form I-9; "Employment Eligibility Verification Form".  
This form is required by the Immigration Reform and Control Act of 1986. Under this act employers are required to verify identity and eligibility for employment to all persons hired for employment after November 6, 1987.

**MUNICIPALITY OF SAN GERMAN  
FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**QUESTIONED  
COSTS**

- I. Certification which makes known that the person does not receive any payment of compensation for services rendered to the State Government or other Municipality. This certification should include a statement which makes clear that the person is not on paid vacations from the State Government or any Municipal Government and to be true, that it be permitted by law.
- J. Certificate of good behavior
- K. Contract (if applicable)

**Response**

The Personnel Director as been notified of this situation and has been advised to revise all personnel records in order to update them all with the information needed.

**Program**

**STATE BLOCK GRANT PROGRAM**

**Finding Number 2**

The Municipality did not submit the program income report required by the grant agreement.

-0-

**Recommendation**

The municipality should implement proper controls regarding program income.

**MUNICIPALITY OF SAN GERMAN  
FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**QUESTIONED  
COSTS**

**Response**

The Federal Program Director has been advised of the finding. Proper controls regarding program income will be implemented.

**Finding Number 3**

**Cash management**

The office of Federal Funds did not comply with the requirement of maintaining a cash management system with procedures to minimize the time elapsed between the transfer of funds from federal agencies and the disbursements of funds. Various fund requisitions were disbursed over three days from the date the funds were received.

**Recommendation**

The Municipality should implement a cash management system in order to have better control and minimize the time elapsed between the transfer of funds from federal agencies and the disbursements of the funds. According to program requirements funds should be disbursed not later than three days after they have been received.

**Response**

The mayor gave instructions to the Federal Program Director to establish a cash management system as required by federal program guidelines.

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*\$1431.43  
Cost  
Balance  
11/30/01*

**MUNICIPALITY OF SAN GERMAN  
FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

**QUESTIONED  
COSTS**

**Finding Number 4**

**Property Records**

The Municipality does not have adequate property records and accounting system. There is no system established to gather all capital expenditures for construction in progress. Additions to property ledger are recorded on a cash basis instead of accrual basis. The figures presented in the general fixed assets group of accounts of the general purpose financial statements do not agree with the subsidiary ledgers.

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**Recommendation**

OMB Common Rules, Subpart C, Section 85.32 (d) (1), states that property records must be maintained. They should include a description of the property, serial number or other identification number, the source of property, percentage of Federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of disposal, sale price of property. A physical inventory of the property must be taken at least once year and the result reconciled with the property records and the figures presented in the general purpose financial statements.

The property custodian should establish a system to gather all cost incurred in those construction in progress or property constructed. The system should be established in coordination with the Finance Department and the Federal Funds Office.

**MUNICIPALITY OF SAN GERMAN  
FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

These cost should include among others, disbursement made for blueprints, materials, labor and other expenses incurred for the construction of the property. This cost control should be kept updated at all times.

**Response**

These recommendation were given to the property custodian and are in the process of being implemented in conjunction with the property module of the mechanized accounting system.

**HOUSING ASSISTANCE PAYMENTS PROGRAM**

**Finding Number 5**

In nine of twenty five cases examined, at least one of the required documents such as, birth certificate of family members, sworn declaration of family composition and good behavior certificate were missing in the participant files.

-0-

**Recommendations**

The PHA should send written communication to the participants, requesting the missing documents in order to update the files.

**Response**

All participant files are being revised in order to update them.

**MUNICIPALITY OF SAN GERMAN  
STATUS OF PRIOR YEAR FINDINGS  
AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**

During the current engagement of the single audit, the status of prior year findings and question costs were reviewed.

The review disclosed that the conditions still existed and/or no correction action has been taken on the finding Number 2 which is repeated as finding Number 4 of this report.