

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

MUNICIPIO DE AGUADILLA
AUDITORIA 2001-2002
30 DE JUNIO DE 2002

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO**

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

JUNE 30, 2002

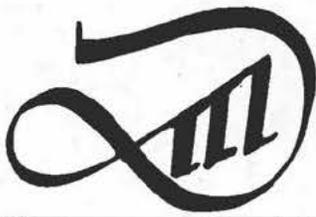
**(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2002
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND THE OMB CIRCULAR A-133)**

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Aguadilla, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2002, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

The **Municipality** accounting system and records of property, plant and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose combined financial statements. Also, the Proprietary Fund did not include the property, plant and equipment used in the operation of the Enterprise Fund as required by the accounting principles generally accepted in the United States of America. Those assets are included in the General Fixed Assets Account Group. Accordingly, no depreciation were recognized and any balance were included as part of the Proprietary Fund. We were unable to obtain sufficient competent evidential matters through audit procedures to satisfy ourselves regarding the reasonableness of the amounts presented in the accompanying general-purpose combined financial statements. Therefore, we do not express an opinion on such amount represent in the Proprietary Fund and in the General Fixed Assets Account Group.

The **Municipality** does not maintain a complete self-balancing cash accounts and has undistributed credits balances in the General Ledger of the General and Special Revenue Funds, for the amounts of \$479,992 and \$337,882, respectively. Therefore, we do not express an opinion on such amount presented in those funds.

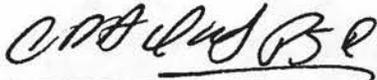
In our opinion, based on our audit and the report of other auditors, except for the effect, if any, as might have determined to be necessary had we been able to audit the fixed assets of the General Fixed Assets Account Group, the property, plant and equipment of the proprietary fund, and the transactions not recorded in the Cash Accounts of the General and Special Revenue Funds, as explained in above paragraphs, and based on our audit and the report of other auditor, the general-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2002, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

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In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2002 on our consideration of the Municipality's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
October 24, 2002



MUNICIPALITY OF AGUADILLA, PUERTO RICO

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND	ACCOUNT GROUPS		TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	MEMORANDUM ONLY
ASSETS AND OTHER DEBITS:								
Cash, Cash Equivalent and Investments (Notes 1 E and 2)	\$ 6,909,377	\$ 4,030,726	\$ 52,860	\$ -	\$ 412,524	\$ -	\$ -	\$ 11,405,487
Cash with Fiscal Agent (Note 1 E)	473,144	1,929,905	315,956	5,042,371	-	-	-	7,761,376
Receivables:								
Trade Account Receivable.....	-	-	-	-	4,600	-	-	4,600
Property Taxes (Note 10).....	-	-	-	43,914	-	-	-	43,914
Volume of Business Taxes (Note 11)	25,394	-	-	-	-	-	-	25,394
Federal Grants (Note 12).....	-	65,469	-	-	-	-	-	65,469
Other Funds (Note 4).....	1,618,792	406,258	-	-	-	-	-	2,025,050
Others (Note 3)	968,999	-	-	3,797	-	-	-	972,796
Property, Plant and Equipment (Note 6)	-	-	-	-	-	91,677,277	-	91,677,277
Amount Available in Debt Service Fund (Note 9).....	-	-	-	-	-	-	5,079,895	5,079,895
Amount to be Provide for Payment of:								
General Long-Term Debt (Notes 7 & 8).....	-	-	-	-	-	-	22,395,105	22,395,105
Advance of Property Taxes (Note 10)	-	-	-	-	-	-	126,158	126,158
State Health Insurance Plan (Note 8)	-	-	-	-	-	-	1,827,580	1,827,580
Unemployment Liability (Note 8).....	-	-	-	-	-	-	136,771	136,771
Claims and Judgments (Note 14)	-	-	-	-	-	-	1,000,000	1,000,000
Compensated Absences (Note 1 I).....	-	-	-	-	-	-	2,813,131	2,813,131
TOTAL ASSETS AND OTHER DEBITS	\$ 9,995,706	\$ 6,432,358	\$ 368,816	\$ 5,090,082	\$ 417,124	\$ 91,677,277	\$ 33,378,640	\$147,360,003

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND	ACCOUNT GROUPS		TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	MEMORANDUM ONLY
LIABILITIES AND FUND EQUITY								
LIABILITIES:								
Accounts Payable and Accrued Liabilities	\$ 213,998	\$ 1,322,430	\$ 94,523	\$ -	\$ 61,696	\$ -	\$ -	\$ 1,692,647
Due to:								
Government Units (Note 5).....	187,769	-	-	-	-	-	-	187,769
Other Funds (Note 4).....	395,758	1,026,633	252,257	10,187	340,215	-	-	2,025,050
Others	123,053	-	-	-	-	-	-	123,053
Deferred Revenues:								
Volume of Business Tax (Note 11)	7,796,906	-	-	-	-	-	-	7,796,906
Federal Grants (Note 12).....	-	991,457	-	-	-	-	-	991,457
Advance from Customers	-	-	-	-	15,213	-	-	15,213
Long-Term Debts:								
General Obligations Bonds (Note 8).....	-	-	-	-	-	-	24,770,000	24,770,000
Special Obligations Notes (Note 8).....	-	-	-	-	-	-	2,705,000	2,705,000
Advance of Property Taxes (Note 10)	-	-	-	-	-	-	126,158	126,158
State Health Insurance Plan (Note 8).....	-	-	-	-	-	-	1,827,580	1,827,580
Unemployment Liability (Note 8).....	-	-	-	-	-	-	136,771	136,771
Claims and Judgments (Note 14)	-	-	-	-	-	-	1,000,000	1,000,000
Vested Compensated Absences (Note 1 l)	-	-	-	-	-	-	2,813,131	2,813,131
TOTAL LIABILITIES.....	8,717,484	3,340,520	346,780	10,187	417,124	-	33,378,640	46,210,735

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND	ACCOUNT GROUPS		TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	MEMORANDUM ONLY
FUND EQUITY:								
Investment in Property, Plant and Equipment (Note 6).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,677,277	\$ -	\$ 91,677,277
Fund Balance:								
Reserved for Encumbrances (Note 1 K)....	685,048	1,583,230	7,694	-	-	-	-	2,276,622
Unreserved:								
Retained Earnings (Note 1 B).....	-	-	-	-	-	-	-	-
Designated for Debt Service (Note 1 K) ..	-	-	-	5,079,895	-	-	-	5,079,895
Designated for Subsequent Years								
Expenditures.....	473,144	1,508,608	14,342	-	-	-	-	1,996,094
Undesignated.....	119,680	-	-	-	-	-	-	119,680
TOTAL FUND EQUITY	1,278,222	3,091,838	22,036	5,079,895	-	91,677,277	-	101,149,268
TOTAL LIABILITIES AND FUND EQUITY	\$ 9,995,706	\$ 6,432,358	\$ 368,816	\$ 5,090,082	\$ 417,124	\$ 91,677,277	\$ 33,378,640	\$147,360,003

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	MEMORANDUM ONLY
REVENUES					
Property Taxes (Note 10)	\$ 7,283,961	\$ -	\$ -	\$ 3,214,661	\$10,498,622
Volume of Business Taxes (Note 11)	8,470,503	-	-	-	8,470,503
Federal Assistance (Note 12)	-	10,548,776	-	-	10,548,776
Intergovernmental (Note 12)	4,722,679	729,045	-	-	5,451,724
Licenses and Permits	331,624	-	-	-	331,624
Rent	300,553	-	-	-	300,553
Miscellaneous	<u>2,329,993</u>	<u>248,474</u>	<u>-</u>	<u>-</u>	<u>2,578,467</u>
TOTAL REVENUES	<u>23,439,313</u>	<u>11,526,295</u>	<u>-</u>	<u>3,214,661</u>	<u>38,180,269</u>
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	2,247,347	-	-	-	2,247,347
General Government	11,119,788	3,220,544	110,470	-	14,450,802
Public Safety	1,382,003	-	-	-	1,382,003
Public Works	1,674,516	-	-	-	1,674,516
Culture and Recreation	905,541	-	-	-	905,541
Sanitation	2,515,073	-	-	-	2,515,073
Human Services and Welfare	2,856,552	1,778,439	-	-	4,634,991
Public Instruction	-	5,348,974	-	-	5,348,974
Urban Development	845,935	114,631	6,271,273	-	7,231,839
Capital Outlays	87,346	1,121,125	2,290,000	-	3,498,471
Collections applied to Property Taxes Advance (Note 10)	5,054,085	-	-	-	5,054,085
Debt Service:					
Principal Retirement (Notes 7 and 8)	-	-	-	1,880,000	1,880,000
Interest Payment	-	-	-	1,613,473	1,613,473
TOTAL EXPENDITURES	<u>28,688,186</u>	<u>11,583,713</u>	<u>8,671,743</u>	<u>3,493,473</u>	<u>52,437,115</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,248,873)</u>	<u>(57,418)</u>	<u>(8,671,743)</u>	<u>(278,812)</u>	<u>(14,256,846)</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	MEMORANDUM ONLY
OTHER FINANCIAL SOURCES (USES):					
Property Taxes Advance (Note 10)	\$ 6,590,175	\$ -	\$ -	\$ -	\$ 6,590,175
Operating Transfer In (Note 1J).....	340,215	125,316	5,367,223	518,600	6,351,354
Operating Transfer Out (Note 1J).....	<u>(643,916)</u>	<u>(5,367,223)</u>	<u>-</u>	<u>-</u>	<u>(6,011,139)</u>
TOTAL OTHER FINANCING SOURCES (USES).....	<u>6,286,474</u>	<u>(5,241,907)</u>	<u>5,367,223</u>	<u>518,600</u>	<u>6,930,390</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources.....	1,037,601	(5,299,325)	(3,304,520)	239,788	(7,326,456)
Fund Balances, at Beginning of Year	<u>240,621</u>	<u>8,391,163</u>	<u>3,326,556</u>	<u>4,840,107</u>	<u>16,798,447</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,278,222</u>	<u>\$ 3,091,838</u>	<u>\$ 22,036</u>	<u>\$ 5,079,895</u>	<u>\$ 9,471,991</u>

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 7,518,954	\$ 7,975,705	\$ 456,751	\$ 3,139,453	\$ 3,214,661	\$ 75,208
Volume of Business Taxes	8,852,646	8,470,503	(382,143)	-	-	-
Intergovernmental	4,626,808	4,845,079	218,271	-	-	-
Licenses and Permits	2,607,000	331,624	(2,275,376)	-	-	-
Rent	929,040	300,553	(628,487)	-	-	-
Miscellaneous	<u>1,942,100</u>	<u>2,329,993</u>	<u>387,893</u>	-	-	-
TOTAL REVENUES	<u>26,476,548</u>	<u>24,253,457</u>	<u>(2,223,091)</u>	<u>3,139,453</u>	<u>3,214,661</u>	<u>75,208</u>
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	2,596,926	2,317,823	279,103	-	-	-
General Government:						
Finance	10,101,608	7,985,709	2,115,899	-	-	-
Personnel	1,284,622	1,196,901	87,721	-	-	-
Insurance	786,819	652,180	134,639	-	-	-
Public Safety	1,425,781	1,388,920	36,861	-	-	-
Public Works	1,836,340	1,728,022	108,318	-	-	-
Culture and Recreation	921,465	910,270	11,195	-	-	-
Sanitation	2,649,329	2,613,865	35,464	-	-	-
Human Services and Welfare	2,940,506	2,868,769	71,737	-	-	-
Urban Development	996,358	845,935	150,423	-	-	-
Capital Outlays	418,194	87,346	330,848	-	-	-
Debt Services	-	-	-	3,139,453	3,493,473	(354,020)
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>25,957,948</u>	<u>22,595,740</u>	<u>3,362,208</u>	<u>3,139,453</u>	<u>3,493,473</u>	<u>(354,020)</u>
EXCESS OF REVENUES Over (Under)						
Expenditures and Encumbrances	<u>518,600</u>	<u>1,657,717</u>	<u>1,139,117</u>	-	<u>(278,812)</u>	<u>(278,812)</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Prior Year Allocation.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Transfer In	-	-	-	-	518,600	518,600
Operating Transfer (Out).....	<u>(518,600)</u>	<u>(518,600)</u>	-	-	-	-
Excess of Revenues and Other Sources (Uses) Over Expenditures and Other Uses	<u>\$ -</u>	1,139,117	<u>\$ 1,139,117</u>	<u>\$ -</u>	239,788	<u>\$ 239,788</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance.....		(1,038,361)			-	
Net Change in Nonbudgeted Items.....		(125,316)			-	
GAAP Adjustment to Revenues		1,062,161			-	
Fund Balance, at Beginning of Year.....		<u>240,621</u>			<u>4,840,107</u>	
FUND BALANCE AT END OF YEAR.....		<u>\$ 1,278,222</u>			<u>\$ 5,079,895</u>	

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS – PROPRIETARY FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>ENTERPRISE</u>
OPERATING REVENUES:	
Admissions Tickets	\$ 417,906
Rent of Facilities	128,243
Miscellaneous	<u>60</u>
TOTAL OPERATING REVENUES	\$ 546,209
OPERATING EXPENSES:	
Personal Services	56,973
Operating Expenses	149,036
Depreciation and Amortization	<u>-</u>
TOTAL OPERATING EXPENSES	<u>206,009</u>
Operating Income	340,200
NON-OPERATING REVENUES:	
Interest Income	<u>15</u>
INCOME BEFORE TRANSFER	340,215
Operating Transfer Out	<u>(340,215)</u>
Retained Earnings at Beginning of Year	-
RETAINED EARNINGS AT END OF YEAR	\$ <u>-</u>

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO
COMBINED STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>ENTERPRISE</u>
CASH FLOW FROM OPERATING ACTIVITIES:	
Cash Received from Customers.....	\$ 522,783
Cash Received from Others for Goods and Services.....	34,039
Cash Payment to Vendors for Goods and Services	(87,653)
Cash Payment to Employees for Services.....	<u>(56,660)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 412,509
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:	
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	-
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest Income	<u>15</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	412,524
Cash and Cash Equivalent, Beginning of Year.....	<u>-</u>
CASH AND CASH EQUIVALENT, END OF YEAR.....	<u>\$ 412,524</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income before Operating Transfer.....	\$ 340,200
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization.....	\$ -
(Increase) Decrease in Assets:	
Account Receivable	(4,600)
Increase (Decrease) in Liabilities:	
Account Payable and Accrued Liabilities	61,696
Advances from Customers.....	<u>15,213</u>
TOTAL ADJUSTMENTS.....	<u>72,309</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>\$ 412,509</u>

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Aguadilla, Puerto Rico (Municipality)** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The general-purpose financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the **Municipality**. This includes the organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, fiscal dependency of the potential component units and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to

(1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet. "Corporación para la Administración y Desarrollo del Parque Acuático Las Cascadas del Municipio de Aguadilla, C.D.", prior year component unit, was closed and the operation was transfer to Parque Acuático Las Cascadas, an enterprise fund created during the fiscal year(see Note 1 B).

B. Basis of Presentation

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis of accounting includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense.

Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

GOVERNMENTAL FUNDS

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

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

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

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

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

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

PROPRIETARY FUND

Enterprise Fund – This is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

ACCOUNT GROUPS

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

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

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

C. Basis of Accounting

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

Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply. In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the **Municipality**; therefore, revenues are recognized based upon the expenditures recorded.

For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

Proprietary Funds are accounted for using a flow of economic resources measurement focus on an accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred.

D. Budgetary Accounting

The **Municipality's** Annual Budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general-purpose financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Combined Financial Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance -- Budget and Actual, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 10).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary basis.

The special funds of the Special Revenue Fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

E. Cash, Cash Equivalent and Investment

The Director of Finance of the **Municipality** is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

E. Cash, Cash Equivalent and Investment (continuation)

For purpose of the statement of cash flows, the Enterprise Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalent.

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

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with the law.

F. Receivable

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

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

H. General Fixed Assets

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the Municipality. Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

Addition to Enterprise Fund fixed assets is stated at cost. Depreciation has been provided using the straight-line method. Assets are included as part of the General Fixed Assets Account Group, accordingly, no depreciation were taken during the year.

I. Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave, or upon retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrues a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) Payment of the compensation is probable; and (3) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB Number 16, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

J. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy send to the Municipality.

K. Interfund Transactions

The Municipality has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

K. Interfund Transactions (continuation)

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

L. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. The **Municipality** has the following reservations of fund balance:

Encumbrance – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

Debt Service – Represents net assets available to finance future debt service payments.

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-Term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

N. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments consist of certificates of deposit. The **Municipality's** cash, cash equivalent and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2002, the market value of investments recorded in Special Revenue Fund approximated its carrying value as follow:

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank of Puerto Rico	1110000102	\$ 500,000	2.00%	06-20-02
Popular Bank of Puerto Rico	1110000109	1,500,000	2.63%	07-07-02
Popular Bank of Puerto Rico	1110000112	3,000,000	2.62%	08-19-02
Popular Bank of Puerto Rico	1110000114	500,000	1.81%	07-20-02
Popular Bank of Puerto Rico	1110000115	1,000,000	1.97%	07-20-02
Oriental Group	931004679	<u>1,500,000</u>	2.50%	07-23-02
TOTAL		<u>\$7,500,000</u>		

The investments are distributed by the amounts of \$6,000,000 in the General Fund and \$1,000,000 in the Special Revenue Fund.

NOTE 3 OTHERS RECEIVABLES

As of June 30, 2002, the amount of \$843,348 corresponds to revision of Intergovernmental Revenue from Municipal Revenue Collection Center, \$20,403 correspond to interest receivables from investments, and \$105,248 from others.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2002 consist of the follows:

	INTERFUND RECEIVABLE	INTERFUND PAYABLE
General:		
Interfund Loans	\$1,268,390	\$ 395,758
Receivable from Debt Service Fund	10,187	-
Receivable from Proprietary Fund	340,215	
Special Revenue:		
Interfund Loans	406,258	1,026,633
Capital Project:		
Interfund Loans	-	252,257
Debt Services:		
Payable to General Fund	-	10,187
Proprietary Fund		
Payable to General Fund	-	340,215
TOTAL.....	<u>\$2,025,050</u>	<u>\$2,025,050</u>

In accordance with Resolution Number 141, Series 2001-2002 the operating income of the Enterprise Fund "Parque Acuático Las Cascadas", should be transfers to the corresponding governmental funds.

NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS

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

	AMOUNT
Puerto Rico Electric Power Authority	\$ 124,463
General Service Administration.....	1,525
Water Company	61,781
TOTAL.....	<u>\$ 187,769</u>

The Municipality due the amount of \$1,827,580 to State Insurance Health Plan (ASES). This amount should be amortize through retention of the increase in the Electronic LOTO participation received by the Municipality, in accordance with Law Number 29, of July 1, 1997.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

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

DESCRIPTION	BALANCE JULY 1, 2001	ADDITIONS AND ADJUSTMENTS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2002
Land.....	\$ 7,953,542	\$ 4,558,006	\$ -	\$12,511,548
Building and Improvements.....	68,330,950	-	3,589,543	64,741,407
Machinery and Equipment	7,285,877	3,864,443	-	11,150,320
Motor Vehicles - Leased.....	3,274,002	-	-	3,274,002
TOTAL.....	<u>\$86,844,371</u>	<u>\$ 8,422,449</u>	<u>\$ 3,589,543</u>	<u>\$91,677,277</u>

Property, Plant and Equipment of the Enterprise Fund (Parque Acuático Las Cascadas) was included as part of the General Fixed Assets Account Group, and accordingly, no depreciation was charged to the Enterprise Fund as required by accounting principles generally accepted in the United States of America.

NOTE 8 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality. General obligations bonds and notes payable as of June 30, 2002, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$1,300,000, Series 1988, payable in semiannual installments ranging from \$40,000 to \$150,000, excluding interests at 8.26%, through July 1, 2002.....	\$ 150,000

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$1,640,000, Series 1993, payable in semiannual installments ranging from \$110,000 to \$235,000, excluding interest at 3.26%, through July 1, 2002.....	\$ 235,000
\$590,000, Series 1999, payable in semiannual installments ranging from \$20,000 to \$70,000, excluding interests at 8.00%, through July 1, 2013.....	520,000
\$2,840,000, Series 1999, payable in semiannual installments ranging from \$105,000 to \$300,000, excluding interests at 7.50%, through July 1, 2013.....	2,495,000
\$5,065,000, Series 1999, payable in semiannual installments ranging from \$70,000 to \$425,000, excluding interests at 7.50%, through July 1, 2023.....	4,830,000
\$3,210,000, Series 1999, payable in semiannual installments ranging from \$45,000 to \$270,000, excluding interests at 7.50%, through July 1, 2023.....	3,060,000
\$1,700,000, Series 1999, payable in semiannual installments ranging from \$115,000 to \$230,000, excluding interests at 7.50%, through July 1, 2008.....	1,315,000
\$805,000, Series 1999, payable in semiannual installments ranging from \$5,000 to \$65,000, excluding interests at 7.50%, through July 1, 2023.....	770,000
\$3,520,000, Series 2000, payable in annual installments ranging from \$130,000 to \$370,000, excluding interests at 8.00%, through July 1, 2014.....	3,245,000
\$1,340,000, Series 2000, payable in annual installments ranging from \$15,000 to \$115,000, excluding interests at 8.00%, through July 1, 2024.....	1,310,000
\$975,000, Series 2000, payable in annual installments ranging from \$65,000 to \$135,000, excluding interests at 8.%, through July 1, 2010.....	910,000
\$3,015,000, Series 2001, payable in annual installments ranging from \$65,000 to \$285,000, excluding interests at 8.00%, through July 1, 2020.....	2,950,000
\$1,010,000, Series 2001, payable in annual installments ranging from \$170,000 to \$240,000, excluding interests at 8.00%, through July 1, 2005.....	840,000

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$2,165,000, Series 2001, payable in annual installments ranging from \$25,000 to \$190,000, excluding interests at 8.00%, through July 1, 2025.....	<u>2,140,000</u>
Total General Obligations Bonds.....	<u>24,770,000</u>
Special Obligations Notes:	
\$4,570,000, Series 1986, payable in semiannual installments ranging from \$75,000 to \$490,000, excluding interests at 9.00%, through July 1, 2006.....	1,705,000
\$1,150,000, Series 1999, payable in semiannual installments ranging from \$130,000 to \$200,000, excluding interests at 7.50%, through July 1, 2005.....	730,000
\$600,000, Series 1999, payable in semiannual installments ranging from \$100,000 to \$140,000, excluding interests at 7.60%, through July 1, 2003.....	<u>270,000</u>
Total Special Obligations Bonds.....	<u>2,705,000</u>
Total General and Special Obligations Bonds.....	<u>\$27,475,000</u>

The Municipality's general obligations long-term note retirements are appropriated and paid from resources accumulated in the debt service fund (see Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality.

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

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2003	\$ 2,060,000	\$ 1,622,812	\$ 3,682,812
2004	1,815,000	1,791,647	3,606,647
2005	1,810,000	1,661,103	3,471,103
2006	1,905,000	1,522,753	3,427,753
After 2006	<u>19,885,000</u>	<u>12,914,864</u>	<u>32,799,864</u>
TOTAL	<u>\$27,475,000</u>	<u>\$19,513,179</u>	<u>\$46,988,179</u>

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

B. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2002
Property Taxes – MRCC.....	\$ 126,158	\$ 5,054,085	\$ 5,054,085	\$ 126,158
State Health Insurance Plan	2,070,142	-	242,562	1,827,580
Unemployment.....	238,066	-	101,295	136,771
Claims and Judgments.....	2,000,000	-	-	2,000,000
Compensated Absences.....	2,317,786	495,345	1,000,000	1,813,131
Obligation Under Capital Leases.....	405,159	-	405,159	-
TOTAL	\$ 7,157,311	\$ 5,549,430	\$ 6,803,101	\$ 7,903,640

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2002:

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2002
General.....	\$26,045,000	\$ -	\$ 1,275,000	\$24,770,000
Special	3,310,000	-	605,000	2,705,000
Others Debts.....	<u>7,157,311</u>	<u>5,549,430</u>	<u>6,803,101</u>	<u>5,903,640</u>
TOTAL	\$36,512,311	\$ 5,549,430	\$ 8,683,101	\$33,378,640

NOTE 9 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 10).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 8). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 10 PROPERTY TAXES

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

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

The tax rate per annum is 8.53% for real property and 6.53% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the **Municipality** of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 9). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$50,000, to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the exonerated portion of property tax contribution when received from monthly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 PROPERTY TAXES (continuation)

The revenue for the basic contribution over property not exonerated is recorded in the general fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center.

The amortization for the fiscal year of the advances of property tax is as follow:

Property Taxes Receivable at Beginning of the Year	\$ 126,158
Plus: Collection of Property Taxes – Current.....	5,054,085
Advance of Property Taxes – Current	<u>(5,054,085)</u>
 Advance of Property Taxes at June 30, 2002.....	 <u>\$ 126,158</u>

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2002, the Debt Service Fund presented a receivable of \$90,605 for the collection of additional property taxes during the next 60 days after end of year.

NOTE 11 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 12 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consists primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 13 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

During the fiscal year, the **Municipality** adopted the requirements of **GASB Number 25** for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws. Under this plan, except for the Head Start Programs' employees, the Municipality's employees and employer portions are contributed, for which, the employee amount is withheld from salaries.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The **Municipality** contributes to the system 9.275% of the participating employee's salaries.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

Law Number 305 of September 24, 1999, amends the Act Number 447, that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution program to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

All employees that do not elect to transfer for the new program, and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

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

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

Contributions in 2002 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared.

Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2002 was approximately **\$670,164**. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the year ended June 30, 2002.

Also, the Head Start Program's employees are covers by a Defined Contribution Plan adopted on March 1, 1994. Substantially all employees are eligible for the Plan on or after the date in which the employees completes one year of continued service. Participants can make a voluntary contribution up to 10% of its gross compensation, as defined in the Plan; not to exceed the limit established by law. The Head Start Program (Sponsor) contributes 3% of quarterly gross salary per employee. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1165 (a) and (e) of the Puerto Rico Internal Revenue Code of 1994 (PRIRC), as amended. Participants are 100% vested on both participant's and Sponsor's contributions and earnings since being eligible for participation in the Plan.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

Upon termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his account or some other annuity alternative benefits. The Net Assets Available for Benefits is \$560,759 accordance to general accepted accounting principles (accrual basis). The Plan's Assets are being managed by Cooperativa de Seguros de Vida de Puerto Rico (COSVI) under an investment contract. Such assets are being maintained in COSVI's general account and are credited with estimated earnings on the underlying investments through the year, which are adjusted retroactively after determining actual yield on investments. The estimated interest rate on earnings was 5.58%. Assets are also charged for Plan's withdrawals and administration expenses. The investment contract, included on Net Assets Available for Benefits, approximates fair value. The contract has not defined maturity and, accordingly, the fair value is the amount payable on demand.

Although the Sponsor has not expressed any intention to do so, it has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event of the termination of the Plan, reduction or suspension, the employer shall make no further contributions and the accounts of all participants shall remain fully vested and nonforfeitable.

NOTE 14 CLAIMS AND JUDGMENTS

A. CLAIMS AND JUDGMENTS

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of eight lawsuits related to personnel matter and back pay, to which the legal counsel has estimate a potential loss of \$1,000,000. These lawsuits are in appeal in other Courts. Accordingly, the financial statements include adjustments in the General Long-Term Debt Account Group because will be paid with future resources if the Courts decided in against of the **Municipality**. However, it has been the **Municipality's** experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The **Municipality** 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 counsels of the **Municipality** have advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

NOTE 15 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management's Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.
- B. Basic Financial Statements – should include:
 1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:
 - a. Statement of Net Assets
 - b. Statement of Activities

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39 (continuation)

2. Fund Financial Statements – Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
 3. Notes to the Financial Statements – One set of notes for both financial statements.
- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the **Municipality** in fiscal year beginning after June 15, 2002. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

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

END OF NOTES

RECIBIDO
UNIDAD DE CORREO
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CEJO DEL COMISIONADO
F. ASISTENTE

PART II

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program (USDA).....	10.558	CCC-07-AG	\$ 465,551
Pass-Through Office of the Governor – Elderly Office			
Child and Adult Care Food Program (USDA).....	10.558	N/AV	<u>57,449</u>
Total U.S. Department of Agriculture			<u>523,000</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants (CDBG).....	14.218		2,675,841
Urban Development Action Grant	14.221		34,334
Emergency Shelter Grant Program	14.231		48,196
Home Investment Partnership Program (HOME)	14.239		474,628
Section 8 Rental Housing Choice Vouchers	14.871		<u>945,633</u>
Total U.S. Department of Housing and Urban Development			<u>4,178,632</u>
U.S. Department of Justice:			
Direct Programs:			
Weed and Seed.....	16.595		8,879
Pass-Through Puerto Rico Department of Justice:			
Local Law Enforcement Block Grant	16.592	98-LB-VX-1085 99-LB-VX-0726	96,622
Public Safety Partnership and Community Policing Grants – Universal Hiring Grant.....	16.710		<u>50,414</u>
Total U.S. Department of Justice			<u>155,915</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>\$ 4,857,547</u>

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$ 4,857,547</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through State Governmental Development Bank			
Public Assistance Grant	83.544	N/AV	<u>71,089</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of the Governor – Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	N/AV	145,047
Special Program for Aging, Title III, Part C	93.045	N/AV	117,256
Pass-Through Administration of Families and Children:			
Head Start Program.....	93.600	02-CH-0483-35	
	93.600	02-CH-0483-36	<u>5,348,975</u>
Total U. S. Department of Health and Human Services			<u>5,611,278</u>
Corporation for National and Community Service (CNS):			
Martin Luther King Days of Sciences	94.006	N/AV	3,245
Vista Project Support	94.013	N/AV	<u>5,617</u>
Total Corporation for National and Community Service (CNS).....			<u>8,862</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$10,548,776</u>

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Aguadilla, Puerto Rico**. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the general-purpose financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The **Municipality** in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS THROUGH GRANTOR'S NUMBER

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

NOTE 5 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

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

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$ 9,551,850	\$ 996,926	\$10,548,776
State & Municipal Expenditures	<u>2,031,863</u>	<u>7,674,817</u>	<u>9,706,680</u>
TOTAL EXPENDITURES.....	<u>\$11,583,713</u>	<u>\$ 8,671,743</u>	<u>\$20,255,456</u>

continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 6 SUBRECIPIENTS

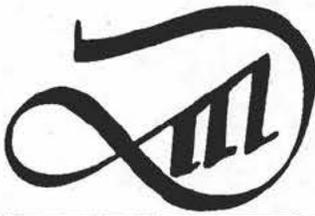
Of the federal expenditures presented in the Schedule, the **Municipality**, provided federal awards to subrecipients as follows:

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
Community Development Block Grant-Entitlement Grants (CDBG)	14.218	\$147,534
Emergency Shelter Grant Program (ESG)	14.231	88,520
HOME Investment Partnership Program (HOME)	14.239	<u>164,133</u>
TOTAL		<u>\$400,187</u>

NOTE 7 MAJOR PROGRAMS

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

END OF NOTES



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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Aguadilla, Puerto Rico**

We have audited the financial statements of **Municipality of Aguadilla, Puerto Rico (Municipality)** as of and for the year ended June 30, 2002, and have issued report thereon dated October 24, 2002, which was qualified because we been able to audit the fixed assets of the General Fixed Assets Account Group, the property, plant and equipment of the proprietary fund, and the transactions not recorded in the Cash Accounts of the General and Special Revenue Funds. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-II-01 and 02-II-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above being material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated October 24, 2002.

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

Page 2

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

CPA DIAZ
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
October 24, 2002





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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Aguadilla, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Aguadilla, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The **Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality's** compliance with those requirements and performing such others procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality's** compliance with those requirements.

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 02-III-01.

Internal Control Over Compliance

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

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

Page 2

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 does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider being material weaknesses.

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

CPA Diaz PSC
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
October 24, 2002



PART III
FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

● Reportable condition(s) identified? Yes None Reported

● Material weakness (es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

● Reportable condition(s) identified? Yes None Reported

● Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?

Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnership Program
16.592	Local Law Enforcement Block Grant
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$316,463

Auditee qualified as low-risk auditee?

Yes No

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

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	<p>During our examination of Municipality's property record and reports we noted the following deficiencies; (1) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balances on the General Ledger; (2) there is not adequate internal control procedures to assure the proper valuation and timeliness of recognition of fixed assets inventory; (3) General Ledger account balances does not reconcile with property subsidiary ledger. <i>(This is a prior year finding.)</i></p> <p>Also, Enterprise Fund's Property, Plant and Equipment are include as part of the General Fixed Asset Accounting Group and no depreciation was charge during the year to the operation of the Enterprise Fund.</p>
CRITERIA	<p>Article 10.002 of State Act Number 81 of August 30, 1991 stated that Municipality should maintain updated property accounting records. Also, accounting principle generally accepted in the United States of America require proper presentation of the amount of fixed assets used in the proprietary fund.</p>
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
CAUSE	Evidence that accounting system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with these requirements.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-II-02
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS
CONDITION	During our examination of Municipality's cash account, we noted that General and Special Revenue Funds cash account balances in General Ledger were not reconciled with adjusted cash balance in bank reconciliation shown understated amounts by \$479,992 and \$337,882, respectively. <i>(This is a prior year finding.)</i>
CRITERIA	Article 8.010 (c) (2) and (3) of State Act Number 81 of August 30, 1991, as amended, stated that Municipality should maintain accurate accounting records and funds controls.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding cash transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should records transactions not recorded in the Uniform Computerized Accounting System, reconcile monthly the General Ledger cash account balances with adjusted cash bank balance and implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-01
FEDERAL PROGRAM	HEAD START PROGRAM (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION OF FAMILIES AND CHILDREN
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	The Head Start Program did not obtain for various Centers, the required licenses issued by the Puerto Rico Fire Department, the Health Department, and the Administration of Families and Children.
CRITERIA	Code of Federal Regulations, 45 CFR, Part 1306, Subpart C, Section 1306.30 (c) and OMB Circular A-133 – Compliance Supplement, state that the facilities used by Head Start grantees must comply with applicable State and local requirements concerning license. The State requirement for the operation of Head Start center include a license granted by the Puerto Rico Fire Department, Health Department and Administration of Families and Children of the Puerto Rico Family Department.
CAUSE	The Head Start Center's failed to obtain or renew the required license issued by the Puerto Rico Fire Department, Health Department and/or the Administration of Families and Children of the Puerto Rico Family Department.
EFFECT	Municipality is not in compliance with 45 CFR, Part 1306, Subpart C, Section 1306.30 (c) and OMB Circular A-133 – Compliance Supplement.
RECOMMENDATION	We recommend management to perform the required improvements and obtain the required licenses from the state agencies.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

MUNICIPALITY OF AGUADILLA, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE YEAR ENDED JUNE 30, 2002

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(1) Audit Findings that have been fully corrected:					
2001	01-III-01	Municipality did not maintain appropriate cash management procedures in order to remit interest to the Federal Agency	14.218	NONE	System and procedures corrected.
2001	01-III-02	Municipality did not maintain appropriate procurement standard procedures.	14.218	NONE	System and procedures corrected.
2001	01-III-03	Municipality did not perform supervisory quality control for HQS inspections.	14.871	NONE	System and procedures corrected.
(2) Audit Findings not Corrected or Partially Corrected:					
2001	01-III-04	Municipality did not obtain the required licenses for various Head Start Centers.	93.600	NONE	The Head Start Office will take immediate action to obtain the referred missing licenses from each regulatory agency. Director of each Center will also be oriented to take timely action from now on to keep all licenses from each regulatory agency.
2000	00-III-04	Municipality did not obtain the required licenses for various Head Start Centers.	93.600	NONE	See Finding Number 01-III-04 above.
(3) Corrective action taken is significantly different from corrective action previously reported:					
NONE					
(4) Audit findings is no longer valid:					
NONE					

END OF SCHEDULE