

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

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

OFICINA DEL COMISIONADO
DE ADMINISTRACION LOCAL
03/01/2011 10:11
RECIBIDO
UNIDAD DE CORREO

Ord. Nos. 9462

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-15
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements-Governmental Funds	
Balance Sheet	18-19
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities . . .	22
Statement of Revenues, Expenditures and Other Financing Sources - Budget and Actual - General and Debt Service Funds	23
Notes to Basic Financial Statements	24-50

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



ORTIZ, RODRIGUEZ, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Municipality of Bayamón, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as valuating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Bayamón as of June 30, 2002, and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the Municipality of Bayamón has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2002.

The Management's Discussion and Analysis is not required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
October 18, 2002

Ortiz, Rodriguez, Rivera & Co.

The stamp 1812104 was affixed to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Bayamón (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 16).

HIGHLIGHTS

Financial Highlights

- The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$226.0 million (net assets). Of this amount, \$17.4 million (unrestricted net assets) may be used to meet the Municipality's ongoing obligations to citizens and creditors, subject to certain law requirements.
- Net assets as of June 30, 2002 amounted to \$226.0 million as compared to \$119.4 million as of June 30, 2001, for a 89.3% increase (\$106.6 million). More than two third of this increase (\$87.7 million) was attributable to a one-time transfer or recreational facilities from the Central Government to the Municipality.
- As of June 30, 2002, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$23.8 million, a decrease of \$2.8 million in comparison with the prior year. More than 90% of this total amount, \$22.2 million, is available for spending in future years.
- The Municipality's activities revenue increased \$8.5 million (or 5.1%). The results of activities for both fiscal years 2001-02 and 2000-01 produced an increase in net assets of \$106.6 million and \$20.2 million, respectively.
- The total cost of the Municipality's programs amounted to \$162.4 million and \$147.1 million during fiscal year 2001-02 and 2000-01 respectively. This represented an increase of \$15.3 million (or 10.4%).
- Loans principal payments were \$8.2 million during fiscal year 2001-02. Loan proceeds from new debt issued amounted to \$21.1 million during the same fiscal year. The Municipality refinanced \$13.5 million of outstanding bonds and notes payable, resulting a slight reduction in the bonds and notes payable from \$138.8 million last year to \$138.2 million as of the end of the current fiscal year.

Municipality Highlights

- The Municipality began a three-year \$10.7 million Recreational Park (Paseo Lineal Río Bayamón) initiative which will significantly enhance existing recreational (open space/active recreation) facilities for its citizens.
- The Municipality continued the construction of the Child's City (Ciudad del Niño) which will be completed in the next fiscal year at a total cost of \$11.7 million. These facilities will provide educational and recreational activities to children of low-income families.
- The Municipality was able to complete the construction of the Puerto Rico Tennis Center, a seventeen tennis courts complex which is expected to significantly develop the tennis sport in the city.
- The Municipality acquired a piece of land of 47,924 square meters (12.19 cdas.) for \$.5 million for the construction of a Line Park and Golf Course (Paseo Tablado y Campo de Golf), expected to be developed within the next two years.

USING THIS ANNUAL REPORT

The new financial statement's focus (implemented this year) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 6 . One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 16), for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets (note: infrastructure incurred before July 1, 2001 will be added later) and long-term

obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the City.

The Statement of Activities (see page 17) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, state and federal contributions finance most of these services.

Fund Financial Statements

Our analysis of the Municipality's major funds begins on page 12. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Funds (see pages 18-19) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the financial statements can be found starting on page 24.

Infrastructure Assets

The Municipality implemented the major model portions of GASB Statement No. 34 during the current fiscal year. The infrastructure portion (related to general governmental activities) was deferred to be implemented when ready to address the modified approach (planned for 2003-04 versus the required 2005-06). Historically, a government's largest group of assets (infrastructure—roads, bridges, drainage systems, underground pipes, etc.) have not been reported nor depreciated in governmental financial statements. The new statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrate its maintenance of locally established level of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$226.0 million at the close of the recent fiscal year. The following table reflects the condensed Statement of Net Assets compared to prior year.

Table 1
Statement of Net Assets
As of June 30,
(in million)

	Governmental Activities	
	<u>2002</u>	<u>2001</u>
Current and other assets	\$141.6	\$139.3
Capital assets	<u>291.7</u>	<u>179.7</u>
Total assets	<u>433.3</u>	<u>319.0</u>
Current and other liabilities	70.5	61.1
Long-term debt outstanding	<u>136.8</u>	<u>138.5</u>
Total liabilities	<u>207.3</u>	<u>199.6</u>
Net assets:		
Invested in capital assets, net of debt	142.5	40.9
Restricted	66.1	61.6
Unrestricted	<u>17.4</u>	<u>16.9</u>
Total net assets	<u>\$226.0</u>	<u>\$119.4</u>

For more detailed information see the Statement of Net Assets (page 16).

The largest portion of the Municipality's assets (63 percent) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (29 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$17.4 million) may be used to meet the Municipality's ongoing obligations to citizens and creditors, subject to certain law requirements.

The Municipality's net assets increased by \$106.6 million during the current fiscal year. Of this amount, \$87.7 million (82 percent) represented a one time transfer of recreation facilities from the Central government to the Municipality. The remainder of this increase reflects investments of operating grants, investments of earnings and special contributions to the Municipality.

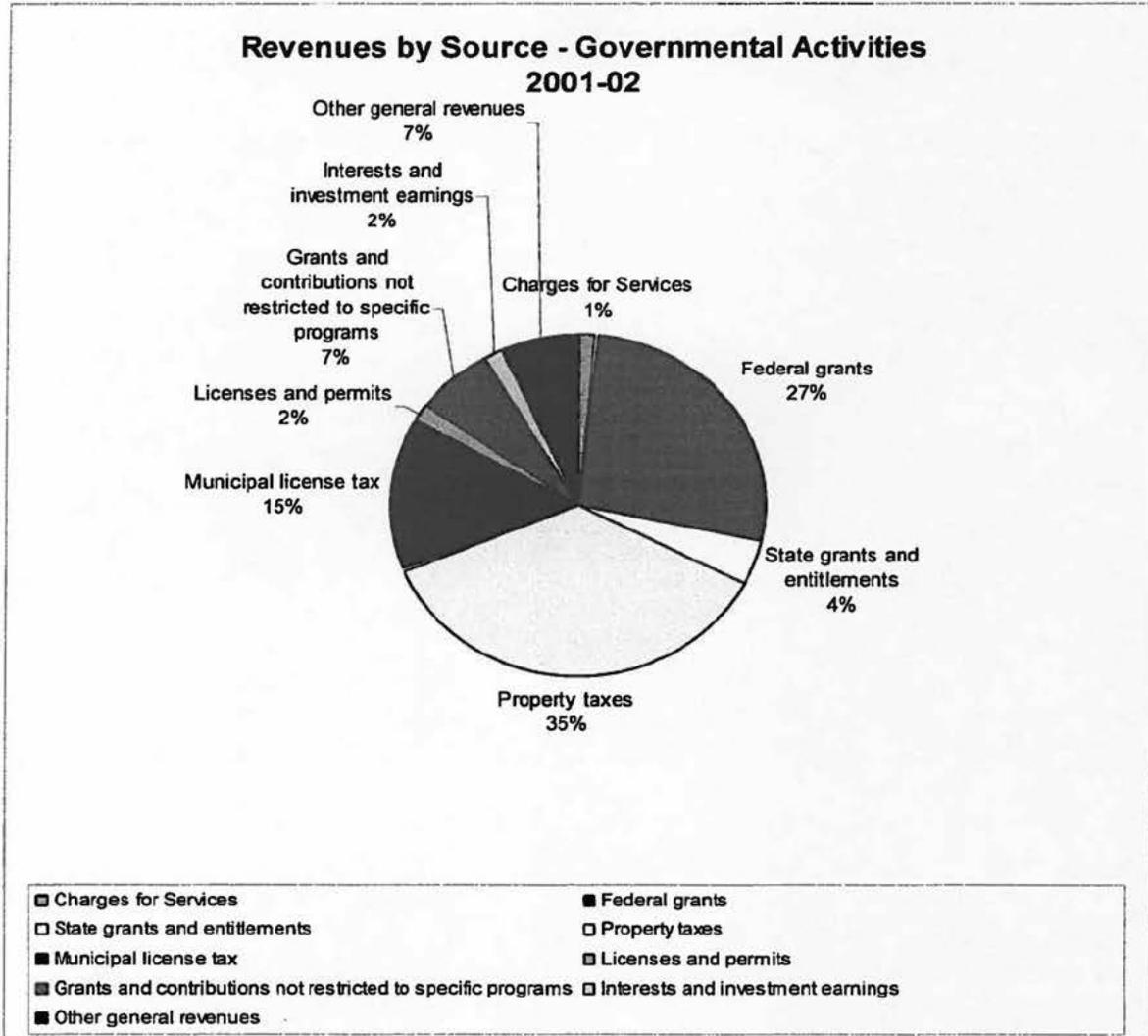
Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

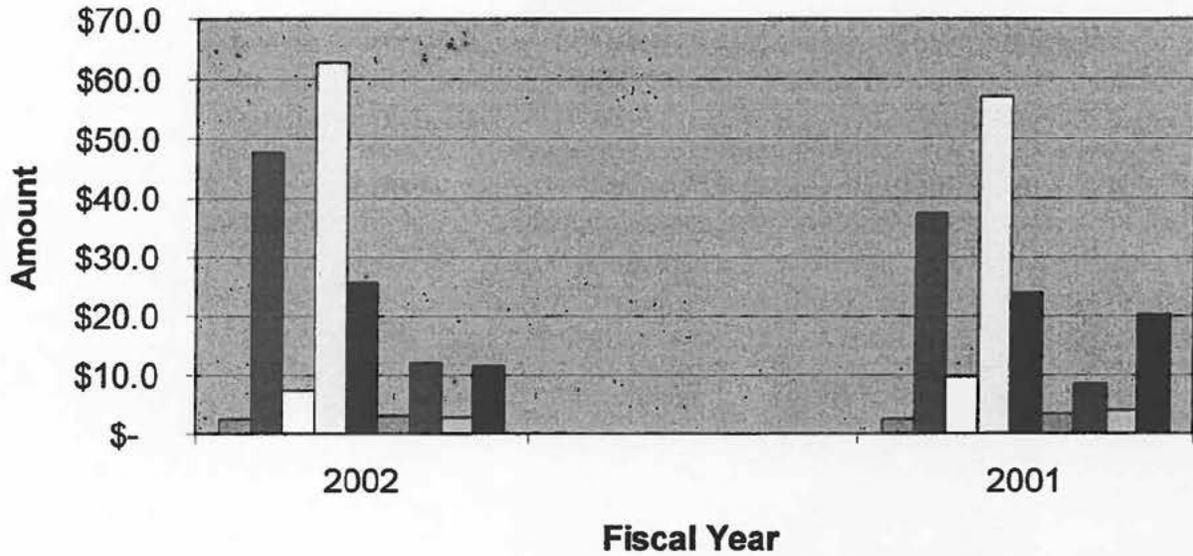
Table 2		
Changes in Net Assets		
(in million)		
REVENUES	Governmental Activities	
	2002	2001
Program Revenues:		
Charges for services	\$2.6	\$2.6
Federal grants-operating	47.8	37.3
State grants and entitlements-capital	7.4	9.8
General Revenues:		
Property taxes	62.8	57.2
Municipal license tax	25.6	24.0
Licenses and permits	3.2	3.4
Grants and contributions not restricted to specific programs	11.9	8.7
Interest and investment earnings	3.0	4.0
Other general revenues	11.5	0.3
Total Revenues	<u>175.8</u>	<u>167.3</u>
EXPENSES		
Program Expenses:		
General government	69.1	71.3
Public safety	5.2	3.6
Public works	24.8	17.8
Culture	1.2	.8
Recreation	5.5	3.0
Health and welfare	45.5	35.1
Education	2.7	8.8
Interest on long-term debt	8.4	6.7
Total Expenses	<u>162.4</u>	<u>147.1</u>
Increase in net assets before special items and transfers	13.4	20.2
Transfer-operating	5.5	-
Special Item - recreational facilities received from Central Government	87.7	-
Increase in Net Assets	<u>\$106.6</u>	<u>\$20.2</u>

Revenues

The increase in taxes (property and municipal license) can be attributable to normal economic environment. Grants (federal and state) are considered recurring revenues, although minor changes from year to year are considered normal. Investment earnings suffered the reduction on the market condition of the banking industry since the Municipality's investments are mostly in certificates of deposits. The overall increase of 5% without the portion attributable to taxes and grants approximates inflation.



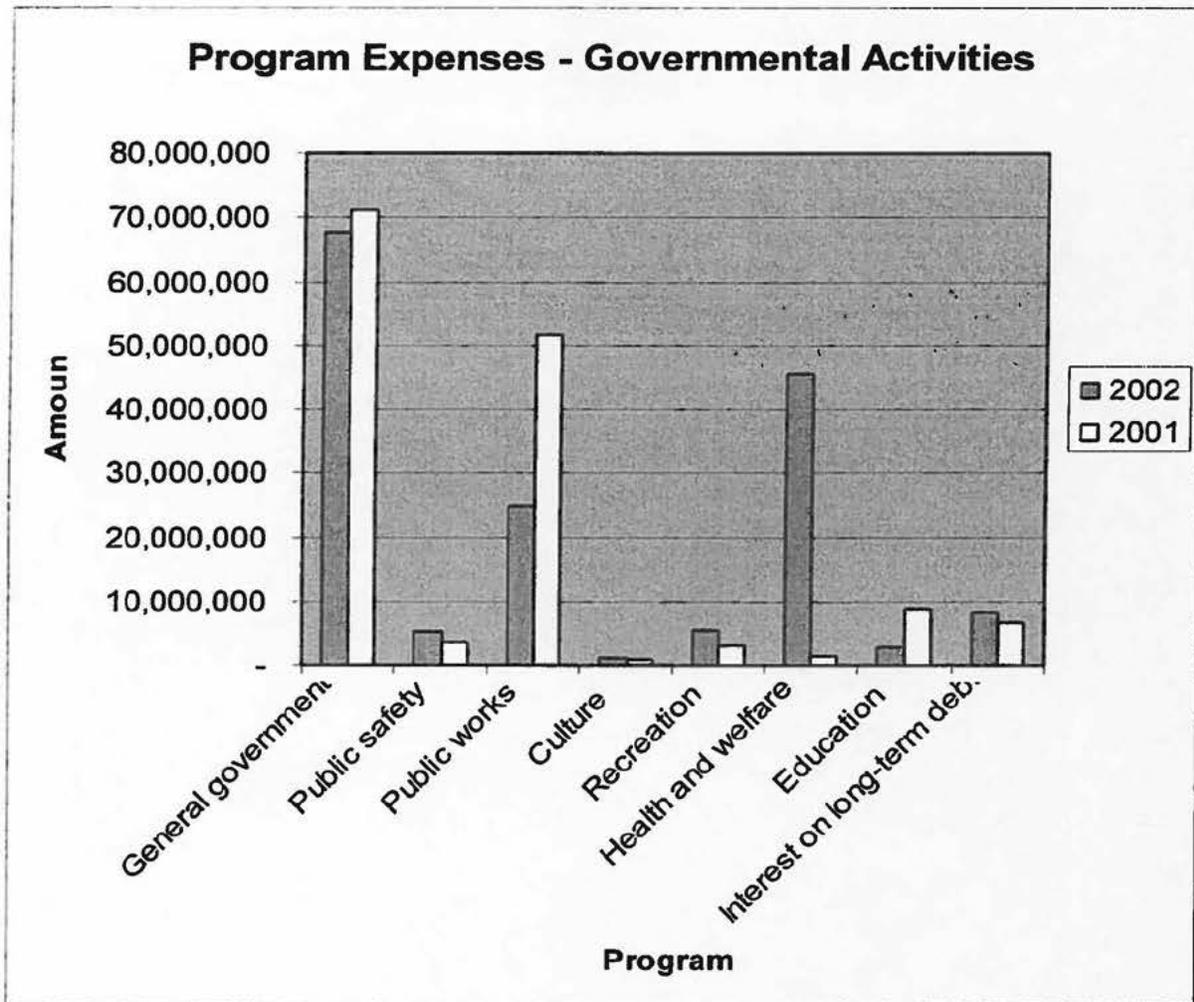
General and Program Revenues - Governmental Activities 2001-02



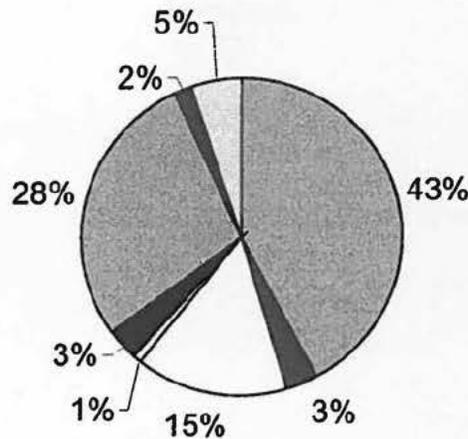
- | | |
|--|-------------------------------------|
| ■ Charges for Services | ■ Federal grants |
| □ State grants and entitlements | □ Property taxes |
| ■ Municipal license tax | □ Licenses and permits |
| ■ Grants and contributions not restricted to specific programs | □ Interests and investment earnings |
| ■ Other general revenues | |

Expenses

Total cost of all programs and services increased by \$15.3 million. For the most part, increases in expenses paralleled inflation and growth in the demand for services. One noteworthy exception however was an increase in federal funds granted for health and welfare programs to benefit low-income families.



Expenses by Use - Governmental Activities 2001-02



■ General government	■ Public safety	□ Public works
□ Culture	■ Recreation	■ Health and welfare
■ Education	□ Interest on long-term debt	

THE MUNICIPALITY FUNDS

Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on pages 18 and 19) reported a combined fund balance of \$88.6 million which is slightly below last year's total of \$88.8 million. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$2.9 million decrease from a fund balance of \$26.7 million in the previous year to \$23.8 million at the end of the current year. The primary reason for the Government fund's deficit in the current year was a contribution (transfer) of \$1.0 million and \$2.7 million to the Debt Service Fund and to the Capital Projects Fund, respectively.

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$10.6 million (see page 23 for budget to actual comparisons), including \$4.8 million reprogrammed from prior years fund balance. The current year operations resulted in a \$7.5 million net income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2002, the Municipality had \$291.7 million invested in a variety of capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$112.0 million or 62.3% from the end of last year.

Table 3
Capital Assets at Year-end
(Net of Depreciation, in million)

	Governmental Activities	
	2002	2001
Land	\$105.9	\$17.7
Construction in progress	24.2	12.5
Building and improvements	148.5	142.3
Furniture and fixture	.7	.7
Equipment	2.7	2.4
Vehicles	5.3	3.6
Infrastructure	4.4	-
Totals	\$291.7	\$179.2

This year's major additions included (in million):

Recreational facilities (active and passive)	\$90.8
Road improvements	3.1
Construction of the Department of Sports and Recreation's Building	2.0
Improvements to the City Hall's Building	1.2
Improvements to the Onofre Carballeira and others sport complexes	1.0
Improvements to the Health Centers	.9
City Landscaping	.7
Construction of Retaining Walls	.7
Purchase of land to construction of a Lineal Park and a Golf Course	.5

Debt Outstanding

As of year-end, the Municipality had \$146.1 million in debt (bonds and other long-term debts) outstanding compared to the \$149.2 million last year, a 2.1% net decrease (considering new borrowings and debt retirement).

Table 4
Outstanding Debt at Year-end
(in million)

	Governmental Activities	
	<u>2002</u>	<u>2001</u>
General obligation bonds and notes	\$136.5	\$137.1
Advances from CRIM	<u>1.7</u>	<u>1.7</u>
Sub-total	138.2	138.8
Compensated absences	<u>7.9</u>	<u>10.4</u>
Totals	<u>\$146.1</u>	<u>\$149.2</u>

New bonds in the amount of \$21.1 million were issued during the year. Of this amount, \$10.5 million will finance the construction of various recreational and industrial projects (the Lineal Park and Golf Course, the Central Park, the infrastructure of the Industrial Park, etc.), 3.6 million will finance various infrastructure projects (improvements to roads, etc.) and \$2.0 million will finance the acquisition of vehicles and equipment. In addition, the Municipality refinanced \$5.0 million of two general obligations debt issued to take advantage of lower interest rates. Principal payments of \$10.7 million were made by the Municipality during the current year.

The Municipality levies an annual special tax of 1.48% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$136.5 million is below legal limitation. More detailed information about the Municipality's long-term debts is presented in Note 15 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2003 budget. One of those factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The Municipality has maintained a higher than average population growth compared to that of Puerto Rico for the period from 1970 to 2000, averaging annual gains of 13.2%. The average family income of families in the Municipality has been one of the highest of any of the municipalities of Puerto Rico, and during the period from 1970 to 2000 the growth rate for average family income in the Municipality was comparable to that of Puerto Rico, averaging annual gains of 74.7%. The Municipality has one of the lowest unemployment rates of any of the municipalities in Puerto Rico. During the years 2000, 2001 and 2002 (five-month period ended May 31, 2002) the unemployment rate of the Municipality averaged 6.7% as compared to 11.3% in Puerto Rico.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2002-03. Amounts available for appropriations (revenues) in the General Fund Budget are \$88.5 million, an increase of 2.4% over the 2001-02 original budget of \$86.4 million. Municipal license taxes and other local charges for services, licenses and permits are expected to lead this increase. The Municipality will use the increase in revenues to finance programs we currently offer and to account for the effect that inflation will have on program costs. Budgeted expenditures are expected to rise slightly below of revenue increases.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of fiscal year 2002-03.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 3rd floor of the City Hall, State Road No. 2, P.O. Box 1588, Bayamón, Puerto Rico 00956-61.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
STATEMENT OF NET ASSETS
JUNE 30, 2002**

<u>Assets</u>	<u>Governmental Activities</u>
Cash in bank (Note 2)	\$ 16,964,268
Cash with fiscal agent (Note 2)	53,628,836
Investments (Note 2 and 5)	51,556,186
Accounts receivables:	
Property taxes (Note 6)	1,512,085
Municipal license taxes (Note 7 and 13)	230,535
Note receivable (Note 8)	341,910
Rent	39,895
Interests	99,565
Due from other agencies (Note 9)	16,031,397
Inventories	1,145,333
Capital assets, net (Note 11)	291,722,867
	<u>\$ 433,272,877</u>
<u>Liabilities and Net Assets</u>	
Liabilities	
Account payable and accrued liabilities	\$ 25,119,966
Due to other agencies (Note 12)	7,837,114
Deferred revenues (Note 13):	
Municipal license tax	18,528,695
Federal government	1,441,871
Accrued interest	8,364,092
Noncurrent liabilities (Note 15):	
Due within one year	9,224,476
Due in more than one year	136,786,420
Total liabilities	<u>207,302,634</u>
Net Assets	
Investment in capital assets, net of related debt	142,519,860
Restricted for:	
Debt service	23,366,236
Capital projects	42,715,070
Unrestricted	17,369,077
	<u>\$ 225,970,243</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
General government	\$ 69,067,010	\$ 2,642,918	\$ -	\$ -	\$ (66,424,092)
Public safety	5,224,019				(5,224,019)
Public works	24,859,202		5,871,808	7,340,734	(11,646,660)
Culture	1,177,091				(1,177,091)
Recreation	5,553,875				(5,553,875)
Health and welfare	45,468,946		41,916,144		(3,552,802)
Education	2,662,681				(2,662,681)
Interest on long-term debt	8,364,092				(8,364,092)
Total	<u>\$ 162,376,916</u>	<u>\$ 2,642,918</u>	<u>\$ 47,787,952</u>	<u>\$ 7,340,734</u>	<u>(104,605,312)</u>
General revenues:					
					62,771,457
					25,632,064
					3,204,950
					11,918,310
					3,036,655
					11,468,702
					<u>118,032,138</u>
					13,426,826
					212,543,417
					<u>\$ 225,970,243</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2002**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$11,445,167	\$ 1,270,575	\$ 992,980	\$ -	\$ 2,747,282	\$ 508,264	\$ 16,964,268
Cash with fiscal agent (Note 2)				23,366,236	30,133,092	129,508	53,628,836
Certificates of deposits (Notes 2 and 5)	51,256,186	300,000					51,556,186
Accounts receivable:							
Property taxes (Note 6)	1,512,085						1,512,085
Municipal license taxes (Note 7)	230,535						230,535
Notes receivable (Note 8)		341,910					341,910
Rent	39,895						39,895
Interest	73,678	25,887					99,565
Due from other agencies (Note 9)	8,250,975	4,757,663	797,607			2,225,152	16,031,397
Due from other funds (Note 10)	491,934				12,327,398		12,819,332
Inventories	1,145,333						1,145,333
Total assets	\$74,445,788	\$ 6,696,035	\$ 1,790,587	\$23,366,236	\$45,207,772	\$ 2,862,924	\$ 154,369,342

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2002**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Account payable and accrued liabilities	\$12,406,586	\$ 6,447,292	\$ 1,261,909	\$ -	\$ 2,492,702	\$ 2,511,477	\$ 25,119,966
Due to other funds (Note 10)	12,327,398	393,000	12,000			86,934	12,819,332
Due to other agencies (Note 12)	7,424,774	412,340					7,837,114
Deferred revenues:							
Municipal license tax (Note 13)	18,528,695						18,528,695
Federal government (Note 13)		812,416	516,678			112,777	1,441,671
Total liabilities	<u>50,687,453</u>	<u>8,065,048</u>	<u>1,790,587</u>	<u>-</u>	<u>2,492,702</u>	<u>2,711,188</u>	<u>65,746,978</u>
Fund Balances (Deficit)							
Reserved for:							
Encumbrances	396,693						396,693
Debt service				23,366,236			23,366,236
Long-term receivable		341,910					341,910
Inventories	1,145,333						1,145,333
Capital projects					42,715,070		42,715,070
Unreserved fund balance (deficit)	22,216,309	(1,710,923)				151,736	20,657,122
Total fund balance (deficit)	<u>23,758,335</u>	<u>(1,369,013)</u>	<u>-</u>	<u>23,366,236</u>	<u>42,715,070</u>	<u>151,736</u>	<u>88,622,364</u>
Total liabilities and fund balance	<u>\$74,445,788</u>	<u>\$ 6,696,035</u>	<u>\$ 1,790,587</u>	<u>\$23,366,236</u>	<u>\$ 45,207,772</u>	<u>\$ 2,862,924</u>	<u>\$ 154,369,342</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2002**

Total fund balances - governmental funds \$ 88,622,364

Amounts reported for governmental activities in the statement
of net assets are different because:

- Capital assets, net used in governmental activities are not
current financial resources and therefore are not
reported in the governmental funds balance sheet 291,722,867

- Some liabilities, including bonds payable, are not
due and payable in the current period and therefore
are not reported in the funds. **(Note 4)** (154,374,988)

Net assets of governmental activities \$225,970,243

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 41,665,646	\$ -	\$ -	\$ 21,105,811	\$ -	\$ -	\$ 62,771,457
Municipal license taxes (Note 7)	25,632,064						25,632,064
Licenses and permits	3,204,950						3,204,950
Charges for service and rents	2,642,918						2,642,918
Intergovernmental revenues (Note 14):							
Federal grants and contributions		17,880,589	17,922,201			11,985,102	47,787,952
State contributions	11,918,310				7,340,734		19,259,044
Interest, fines, and penalties	2,835,357			201,298			3,036,655
Other revenues	11,468,702						11,468,702
Total revenues	<u>99,367,947</u>	<u>17,880,589</u>	<u>17,922,201</u>	<u>21,307,109</u>	<u>7,340,734</u>	<u>11,985,132</u>	<u>175,803,742</u>
EXPENDITURES							
General government	65,765,650						65,765,650
Public safety	5,175,211						5,175,211
Public works	18,284,545	6,527,664					24,812,229
Culture	1,071,806						1,071,806
Recreation	4,073,864						4,073,864
Health and welfare	874,806	12,474,650	18,847,554			12,762,408	44,959,218
Education	2,602,212						2,602,212
Capital outlays					33,199,483		33,199,483
Debt service:							
Principal retirement				8,155,000			8,155,000
Interest and other				7,256,159			7,256,159
Total expenditures	<u>97,847,894</u>	<u>19,002,334</u>	<u>18,847,554</u>	<u>15,411,159</u>	<u>33,199,483</u>	<u>12,762,408</u>	<u>197,070,632</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,520,053</u>	<u>(1,121,745)</u>	<u>(925,353)</u>	<u>5,896,950</u>	<u>(25,959,740)</u>	<u>(777,246)</u>	<u>(21,267,090)</u>
OTHER FINANCING SOURCES (USES)							
Loan proceeds					21,050,000		21,050,000
Transfers in	291,327		925,353	1,010,761	2,700,000	63,143	4,990,584
Transfers out	(4,699,257)			(291,327)			(4,990,584)
Total other financing sources (uses)	<u>(4,407,930)</u>	<u>-</u>	<u>925,353</u>	<u>719,434</u>	<u>23,750,000</u>	<u>63,143</u>	<u>21,050,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(2,887,877)</u>	<u>(1,121,745)</u>	<u>-</u>	<u>6,315,384</u>	<u>(2,108,740)</u>	<u>(714,103)</u>	<u>(217,090)</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>26,646,212</u>	<u>(247,258)</u>		<u>16,750,852</u>	<u>44,823,819</u>	<u>865,830</u>	<u>88,839,454</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 23,758,335</u>	<u>\$ (1,369,013)</u>	<u>\$ -</u>	<u>\$ 23,366,236</u>	<u>\$ 42,715,070</u>	<u>\$ 151,736</u>	<u>\$ 88,622,364</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Net change in fund balances - total governmental funds (\$ 217,090)

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 33,199,483
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (4,774,544)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (21,050,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 8,155,000
- Change in accrued interest expense which does not require the use of current financial resources. (1,107,933)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (778,090)

Changes in net assets of governmental activities \$13,426,826

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 42,540,334	\$ 45,138,563	\$ 45,138,563	\$ -	\$ 14,873,338	\$ 14,873,338	\$ 21,105,811	\$ 6,232,473
Municipal license taxes	24,000,000	25,454,514	25,632,064	177,550				
Licenses and permits	1,525,000	2,872,707	3,204,950	332,243				
Charges for services and rent	3,040,000	2,922,364	2,642,918	(279,446)				
Intergovernmental revenues:								
State contributions	11,885,545	11,885,545	11,918,310	32,765				
Interest, fines and penalties	3,150,000	3,281,069	2,835,357	(445,712)	-	-	201,298	201,298
Other revenues	300,000	668,683	1,369,169	700,486				
Total revenues	86,440,879	92,223,445	92,741,331	517,886	14,873,338	14,873,338	21,307,109	6,433,771
EXPENDITURES								
General government	57,700,104	62,909,917	57,919,591	4,990,326				
Public safety	5,110,995	5,438,269	5,175,211	263,058				
Public works	15,642,758	19,915,347	18,284,545	1,630,802				
Culture	933,557	1,178,878	1,071,806	107,072				
Recreation	3,065,519	3,952,812	4,073,864	(121,052)				
Health and welfare	1,271,142	1,049,338	874,606	174,732				
Education	2,716,804	2,548,884	2,602,212	(53,328)				
Debt service:								
Principal					9,391,208	9,391,203	8,155,000	(1,236,208)
Interest					5,482,130	5,482,130	7,256,159	1,774,029
Total expenditures	86,440,879	96,993,445	90,001,835	6,991,610	14,873,338	14,873,338	15,411,159	537,821
OTHER FINANCING SOURCES								
Reprogramming funds		4,770,000	4,770,000	-				
Excess of revenues over expenditures	\$ -	\$ -	\$ 7,509,496	\$ 7,509,496	\$ -	\$ -	\$ 5,895,950	\$ 5,895,950

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. ORGANIZATION

The Municipality of Bayamón, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For fiscal year ended June 30, 2002, the Municipality implemented GASB Statement No. 33 (GASB 33), Accounting and Financial Reporting for Nonexchange Transactions; GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 36 (GASB 36), Recipient Reporting for Certain Shared Non exchange Revenues (and amendment of GASB 33); GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

useful to the people who use governmental financial information to make decisions and includes:

- **Management's Discussion and Analysis - GASB 34** requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).
- **Government - Wide Financial Statements -** The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- **Statement of Net Assets -** The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Program Activities -** The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules -** Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

GASB 33, as amended by GASB 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", of the GASB. 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 appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist 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. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has no component units.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Health and Human Services Programs (HHS Programs)

This fund account for revenue sources to provide essential human services such as health insurance for elderly and low-income people, improving maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research including the prevention of outbreak of infections disease and immunization services.

4) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

5) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financial with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

d. Cash, Cash with Fiscal Agent and Certificates of Deposits

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Inventories

Inventories in the general fund are stated at cost and consist of office, printing, and maintenance supplies, gasoline, oil and other items held for consumption and are recorded as expenditures at the time the inventory items are consumed rather than when purchased.

g. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

h. Reservation of Fund Balance

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

1) Encumbrances

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

2) Inventory

Represents inventory that does not represent available financial resources.

3) Long-term Receivables

Represents the reservation of monies set aside for long-term receivables which are not considered current financing resources.

4) Debt Service

Represents net assets available to finance future debt service payments.

5) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

i. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2002 amounted to approximately \$1.7 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.5 million for workers compensation insurance covering all municipal employees.

j. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Assembly prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Assembly. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Assembly.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2002 representing the original budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2002 is presented below for the general fund:

	<u>Revenues</u>	<u>Expenditures</u>
GAAP basis	\$99,367,947	\$97,847,894
Timing differences:		
Current year encumbrances recorded as expenditures on the budgetary basis		396,693
Prior year encumbrances recorded as expenditures on the GAAP basis		(3,478,694)
Entity differences:		
Non-budgeted funds	(10,390,860)	(9,463,315)
Non-budgeted transfers	291,327	4,699,257
Basis of accounting differences:		
Net change in property tax receivable	<u>3,472,917</u>	<u> </u>
Budgetary basis	<u>\$92,741,331</u>	<u>\$90,001,835</u>

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- a. Explanation of certain differences between governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$154.3 million difference are as follows:

Bonds payable	\$136,485,000
Accrued interest payable	8,364,092
Compensated absences	7,851,844
Advances from CRIM	<u>1,674,052</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$154,374,998</u>

5. DEPOSITS AND INVESTMENTS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$13.6 million in the general fund were fully collateralized at June 30, 2002. In the special revenue fund and capital projects fund there were deposits with commercial banks of approximately \$3.9 and \$2.8 million, respectively, that were fully collateralized.

The deposits at GDB of approximately \$30.1 million that are restricted principally for capital projects, and the \$23.4 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The amounts reflected as investments in the balance sheet represents certificates of deposit that the maturity date exceeds ninety (90) days.

The Municipality maintains its investments in four (4) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

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

The rates are 8.31% for real property and 6.31% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.48%	1.48%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>8.31%</u>	<u>6.31%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

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

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. Total advances from CRIM as of June 30, 2002, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately \$1.7 million (refer to Note 15). This amount will be paid commencing on July 1, 2002, through advances from property taxes. (Refer to Note 21).

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amount that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2001-02, but not the final settlement as the six months period after fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2002, the amount collected from taxpayers and charges by CRIM of approximately \$45.1 million, less than the advances received by the Municipality for the same period by approximately \$1.5 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements.

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2002. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Bayamón, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Bayamón, are as follows:

Financing institution	=	1.5%
Other organizations	=	.5%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$18.5 million; corresponding to the next fiscal year municipal license.

8. NOTES AND INTEREST RECEIVABLE

Represents loan agreements between the Municipality of Bayamón and various institutions, under the Urban Development Action Grant (UDAG) Program. Under the agreements, the Municipality lent funds to assist in financing the cost of construction of buildings and facilities.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$ 8,250,975
HUD - CDBG Program	1,683,444
HUD - UDAG	1,427,852
HUD - Section 8	781,547
HUD - HOME Program	775,559
HHS - Ryan White	638,773
HHS - Head Start	158,834
HUD - Emergency Shelter	46,794
Iniciativa HUD	42,467
Other nonmajor governmental funds	<u>2,225,152</u>
	<u>\$16,031,397</u>

10. DUE FROM (TO) OTHER FUNDS

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The due from and due to other fund balances as of June 30, 2002, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	HUD Programs	\$ 393,000
General Fund	HHS Programs	12,000
General Fund	Other nonmajor governmental funds	86,934
Capital Project	General Fund	<u>12,327,398</u>
		<u>\$12,819,332</u>

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

	<u>Balance July 1, 2001 (As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
Capital assets, not being depreciated:				
Land	\$ 17,669,831	\$ 88,205,200	\$ -	\$ 105,875,031
Construction in progress	12,521,667	11,682,426		24,204,093
Total capital assets, not being depreciated	<u>30,191,498</u>	<u>99,887,626</u>	<u>-</u>	<u>130,079,124</u>
Capital assets, being depreciated:				
Buildings and building improvements	164,092,795	9,551,532		173,644,327
Furniture and fixtures	1,134,130	147,448		1,281,578
Vehicles and equipment	9,050,407	3,236,847		12,287,254
Infrastructure	-	4,427,647		4,427,647
Total capital assets, being depreciated	<u>174,277,332</u>	<u>17,363,474</u>	<u>-</u>	<u>191,640,806</u>
Less accumulated depreciation for:				
Buildings and building improvements	21,777,684	3,341,365		25,119,049
Furnitures and fixtures	435,848	120,786		556,634
Vehicles and equipment	3,008,987	1,270,350		4,279,337
Infrastructure	-	42,043		42,043
Total accumulated depreciation	<u>25,222,519</u>	<u>4,774,544</u>	<u>-</u>	<u>29,997,063</u>
Total capital assets, being depreciated, net	<u>149,054,813</u>	<u>12,588,930</u>	<u>-</u>	<u>161,643,743</u>
Governmental activities capital assets, net	<u>\$ 179,246,311</u>	<u>\$ 112,476,556</u>	<u>\$ -</u>	<u>\$ 291,722,867</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The beginning balance of capital assets at July 1, 2001 has been restated to conform with the adoption of GASB 34. There were no retirements of capital assets during the year ended June 30, 2002.

Depreciation expense was charged to functions/programs of the Municipality as follows:

General government	\$2,523,270
Public safety	48,808
Public works	46,973
Culture	105,285
Recreation	1,480,011
Health and welfare	509,728
Education	<u>60,469</u>
 Total depreciation expense	 <u>\$4,774,544</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2002 are as follows:

Puerto Rico Electric Power Authority	\$6,516,804
Puerto Rico Telephone Company	570,962
Department of Housing and Urban Development	412,340
Puerto Rico Water and Sewer Authority	165,231
Retirement System Administration	143,112
General Services Administration	<u>28,665</u>
 Total	 <u>\$7,837,114</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$18.5 million in the general fund related to municipal license tax collected in fiscal year 2001-02 that will be earned in fiscal year 2002-03.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. These were related to the following federal programs/grants:

Program/Grant Description

Section 8 Housing Voucher (HUD)	\$ 812,416
Child Care and Development Block Grant (HHS)	268,527
Community Service Block Grant (HHS)	248,151
Work Investment Act (DOL)	32,504
Welfare to Work	11,814
Other nonmajor governmental funds	<u>68,459</u>
	<u>\$1,441,871</u>

14. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain public corporations, principally the Puerto Rico Electric Power Authority and from the CRIM.

15. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2002 are as follows:

Bonds

\$21,425,000 series of 1992, payable in annual installments of \$755,000 to \$2,380,000 until July 1, 2006, interest ranging from 6.063% to 6.36%.	\$ 10,165,000
\$863,000 series of 1982, payable in annual installments of \$15,000 to \$55,000 until July 1, 2007, interest at 5%.	270,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

\$895,000 series of 1995, payable in annual installments of \$35,000 to \$95,000 until July 1, 2007, interest ranging from 5% to 7.506%	\$ 495,000
\$980,000 series of 1987, payable in annual installments of \$25,000 to \$110,000, until July 1, 2002; interest at 8.20%.	110,000
\$1,440,000 series of 1987, payable in annual installments of \$45,000 to \$165,000, until July 1, 2002; interest at 8.20%.	165,000
\$7,135,000 series of 1995, payable in annual installments of \$165,000 to \$715,000 until July 1, 2014, interest ranging from 6.44% to 8.50%.	5,925,000
\$13,260,000 series of 1995, payable in annual installments of \$545,000 to \$1,490,000 until July 1, 2007, interest ranging from 5% to 7.506%.	7,435,000
\$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2009, interest ranging from 6.5% to 8.206%.	15,675,000
\$2,760,000 series of 1994, payable in annual installments of \$95,000 to \$300,000 until July 1, 2009, interest ranging from 6.5% to 7.706%.	1,855,000
\$2,595,000 series of 1999, payable in annual installments of \$35,000 to \$225,000 until July 1, 2023, interest ranging from 4.865% to 6.5%.	2,480,000
\$16,535,000 series of 1998, payable in annual installments of \$440,000 to \$1,640,000 until July 1, 2015, interest ranging from 4.865% to 6.710%.	14,550,000
\$17,275,000 series of 1999, payable in annual installments of \$590,000 to \$1,760,000 until July 1, 2015, interest at 7.5%.	16,045,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

\$1,210,000 series of 1999, payable in annual installments of \$205,000 to \$280,000 until July 1, 2004, interest ranging from 7.08% to 7.5%.	\$ 780,000
\$135,000 series of 2000, payable in annual installments of \$25,000 to \$30,000 until 2004, interest ranging from 5.0% to 7.5%.	85,000
\$1,700,000 series of 2000, payable in annual installments from \$290,000 to \$390,000 until 2004, interest ranging from 5.0% to 7.5%.	1,650,000
\$3,045,000 series of 2000, payable in annual installments of \$525,000 to \$700,000 until July 1, 2004, interest ranging from 5.0% to 7.5%.	1,955,000
\$22,820,000 series of 2001, payable in annual installments of \$750,000 to \$2,385,000 until July 1, 2016, interest ranging from 5.0% to 8.0%.	22,070,000
\$2,765,000 series of 2001, payable in annual installments of \$40,000 to \$240,000 until July 1, 2025, interest ranging from 5.0% to 8.0%.	2,725,000
\$11,945,000 series of 2001, payable in annual installments of \$165,000 to \$1,040,000 until July 1, 2025, interest ranging from 5.0% to 8.0%.	11,780,000
\$2,015,000 series of 2002, payable in annual installments of \$75,000 to \$220,000 until July 1, 2016, interest ranging from 5.0% to 8.0%.	2,015,000
\$12,060,000 series of 2002, payable in annual installments of \$265,000 to \$1,135,000 until July 1, 2021, interest ranging from 5.0% to 8.0%.	12,060,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

\$6,975,000 series of 2002, payable in annual installments of \$780,000 to \$1,240,000 until July 1, 2008, interest ranging from 5.0% to 8.0% \$ 6,195,000

Total bonds payable \$ 136,485,000

Advances from CRIM

\$314,128 final liquidation notified by the Municipal Revenue Collection Center (CRIM), year 1997-98, which will be repaid through a financing to be obtained by the CRIM (refer to note 21). \$ 163,608

\$1,510,444 final liquidation notified by the Municipal Revenue Collection Center (CRIM), year 1998-99, which will be repaid through a financing to be obtained by the CRIM (refer to note 21). 1,510,444

Total advances from CRIM \$ 1,674,052

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2002, are as follows:

	<i>Bonds</i>		<i>Advances from CRIM</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 8,425,000	\$ 8,260,510	\$ 20,486	\$ 103,582
2004	8,815,000	9,240,060	21,754	102,214
2005	9,515,000	8,600,260	23,100	100,968
2006	9,175,000	7,945,940	24,529	99,539
2007	9,920,000	7,275,540	26,047	98,021
2008-2012	32,950,000	28,499,320	156,497	463,842
2013-2017	37,700,000	14,837,140	211,287	409,052
2018-2022	14,950,000	4,808,680	285,259	335,081
2023-2027	5,395,000	840,790	905,093	335,589
	<u>\$ 136,845,000</u>	<u>\$ 90,308,240</u>	<u>\$ 1,674,052</u>	<u>\$ 2,047,888</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

As described in Note 6, the Municipality levies an annual special tax of 1.48% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Government Development Bank.

	Beginning Balance	Additions	Payments	Other Adjustments	Ending Balance	Due within One Year
Bonds payable	\$ 134,535,000	\$ 21,050,000	\$ 8,155,000	\$(10,945,000)	\$ 136,485,000	\$ 8,425,000
Notes payable	2,590,000			(2,590,000)	-	
Advances from CRIM	1,674,052				1,674,052	20,486
Total long-term debt	138,799,052	21,050,000	8,155,000	(13,535,000)	138,159,052	8,445,486
Compensated absences	10,390,905		2,539,061		7,851,844	778,990
Total other liabilities	10,390,905	-	2,539,061	-	7,851,844	778,990
Total noncurrent liabilities	\$ 149,189,957	\$ 21,050,000	\$ 10,694,061	\$ (13,535,000)	\$ 146,010,896	\$ 9,224,476

16. RETIREMENT PLAN

a. Plan Description

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 System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Governor, the Comptroller of 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.

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

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

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

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

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January , 2000, will only be allowed to become members of System 2000. System 2000 will reduce the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2002 was approximately \$1.6 million. The Municipality's payroll for employees covered by ERS was approximately \$17.3 million. The Municipality total payroll for all employees was approximately \$43.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2002 was approximately \$545,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

19. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

20. COMMITMENTS

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2002. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$7.4 million.

21. SUBSEQUENT EVENTS

On July 1, 2002, the Municipality entered into a loan agreement of approximately \$1.7 million with GDB. The proceeds of the loan were used to cancel the outstanding balance of advances from CRIM as enacted by Public Law 42 (refer to Note 6). The loan has a fixed interest rate of 6.1875% payable annually. The loan matures on July 1, 2031,

OFIC. DEL COMANDANTE
DE ARMAS N.º 100

03 MAR 31 PM 1:03

RECIBIDO
UNIDAD DE CORREO

1265-10 (2002)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN
ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS
AND THE REQUIREMENTS OF OMB CIRCULAR A-133 AND
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**
**REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN ACCORDANCE WITH GOVERNMENTAL
AUDITING STANDARDS AND THE REQUIREMENTS OF OMB CIRCULAR A-133 AND THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2002**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - INDEPENDENT AUDITORS' REPORT ON:	
Compliance and on Internal Control over Financial Reporting Based on and Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	1-2
Compliance and on Internal Control over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards	3-5
PART II - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6-7
Notes to Schedule of Expenditures of Federal Awards	8
PART III - SCHEDULE OF FINDINGS AND QUESTIONED COSTS	9
Findings on Compliance and on Internal Control over Compliance with Requirements Applicable to Federal Programs	10-16
PART IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	17-18
PART V - CORRECTIVE ACTION PLANS ON CURRENT YEAR FINDINGS	

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



ORTIZ, RODRIGUEZ, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

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

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

To the Honorable Mayor and
Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

We have audited the basic financial statements of the Municipality of Bayamón as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Bayamón's basic 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 of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that have reported to management of the Municipality of Bayamón in a separate letter dated October 18, 2002.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Bayamón's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal

control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Ortiz Rodriguez, Rivera & Co.

San Juan, Puerto Rico
October 18, 2002

The stamp 1847876 was affixed
to the original of this report.





ORTIZ, RODRIGUEZ, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

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

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

Compliance

We have audited the compliance of Municipality of Bayamón 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. Municipality of Bayamón's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Bayamón's management. Our responsibility is to express an opinion on Municipality of Bayamón'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 Municipality of Bayamón's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not

provide a legal determination on Municipality of Bayamón's compliance with those requirements.

As summarized below and discussed in detail in the Schedule of Findings and Questioned Costs listed in the Table of Contents, the Municipality did not comply with the federal requirements for the following federal award programs. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to those programs.

<u>Compliance Requirement</u>	<u>Program</u>	<u>Reference Number</u>
Cash Management	Child and Adult Care Food Program	02-1
Cash Management	HOME Investment Partnership Program	02-2
Eligibility	HOME Investment Partnership Program	02-3
Cash Management	Section 8 Housing Choice Vouchers	02-4
Cash Management	Community Services Block Grant	02-5

In our opinion, except for the instances of non-compliance identified above, Municipality of Bayamón 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.

Internal Control over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Municipality of Bayamón's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are

described in the accompanying schedule of findings and questioned costs as items 02-1 to 02-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
October 18, 2002

The stamp 1847877 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development		
Section 8 - Housing Choice Vouchers	14.871	\$10,276,656
Section 8 - Moderate Rehabilitation Phase 5	14.249	267,329
Section 8 - Moderate Rehabilitation Phase 3	14.249	237,216
Home Investment Partnership Program	14.239	1,668,970
Urban Development Action Grant	14.221	773,530
Community Development Block Grant Program, Entitlement Grants	14.218	<u>5,778,633</u>
Subtotal U.S. Department of HUD		<u>19,002,334</u>
U.S. Department of Health and Human Services (HHS)		
Head Start	93.600	12,545,709
Early Head Start	93.600	1,004,870
Ryan White	93.918	987,225
Pass through the Municipality of San Juan: Ryan White-Formula	93.918	1,793,158
Passed through State of Office of the Governor - Office of Economic Opportunity; then Office of Human Development: Community Service Block Grant	93.569	1,308,492
Pass through Administration of Families and Children: Child Care and Development Block Grant	93.575	<u>1,208,100</u>
		<u>18,847,554</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Labor		
Passed through State Office of the Governor		
Office of Economic Opportunity:		
Welfare to Work	17.253	\$ 378,021
School to Work	84.278	254,507
Work Investment Act - Adult	17.258	2,441,856
Work Investment Act - Youth	17.259	1,556,750
Work Investment Act - Dislocated Workers	17.260	<u>3,551,330</u>
Subtotal U.S. Department of Labor		<u>8,182,464</u>
U.S. Department of Agriculture		
Passed through Education Department:		
Child and Adult Care Food Program	10.558	<u>1,458,367</u>
Subtotal U.S. Department of Agriculture		<u>1,458,367</u>
TOTAL		<u>\$47,490,719</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Total federal expenditures per schedule	\$ <u>47,490,719</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$19,002,334
Health and Human Services Programs	18,847,554
Federal expenditures included in other governmental funds	<u>9,640,831</u>
Total	\$ <u>47,490,719</u>

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

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expressed an unqualified opinion on the basic financial statements of the Municipality of Bayamón.
- b. There were no reportable conditions on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Municipality of Bayamón were disclosed during the audit.
- d. There were reportable conditions on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for the Municipality of Bayamón expressed a qualified opinion.
- f. Audit findings relative to the major federal award programs for Municipality of Bayamón are reported in number 2 of this schedule.
- g. The programs tested as major programs included:
 - 1) Child and Adult Care Food Program - CFDA No. 10.558
 - 2) HOME Investment Partnerships Program - CFDA No. 14.239
 - 3) Section 8 Housing Choice Vouchers - CFDA No. 14.871
 - 4) Community Services Block Grant - CDFA No. 93.569
 - 5) Child Care and Development Block Grant - CFDA No. 93.575
- h. The threshold for distinguishing types A and B programs was \$1,406,221.
- i. Municipality of Bayamón was determined to be a high-risk auditee.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**2. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>Child and Adult Care Food Program CFDA. No. 10.558</p>	<p>Condition 02-1</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.</p>	
<p>HOME Investment Partnership Program CFDA. No. 14.239</p>	<p style="text-align: center;">Condition 02-2</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p> <p><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.</p>	
<p>HOME Investment Partnership Program CFDA. No. 14.239</p>	<p>Condition 02-3</p> <p>In testing eligibility, we selected 25 participants who received benefits for the fiscal year ended June 30, 2002. We found that 3 participant files were missing the Truth in Leading Disclosure Statement. Those participant file numbers are: 880, 977, and 1035.</p> <p><u>Criteria</u></p> <p>As stated in OMB Circular A-87 and 45 CFR 92.42, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three-years from the date of submission, unless there is litigation, claims, audits or other actions</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>involving the records that have been started before the end of the three-year period in which case the records shall be retained until all issues are resolved or the end of the three-year period, whichever is later.</p> <p><u>Cause</u></p> <p>The Program's internal control procedures regarding the filing of documents are inadequate. In addition, the Program does not perform quality control procedures and periodic reviews of eligibility determinations.</p> <p><u>Effect</u></p> <p>The Municipality may have expended program funds for unallowable activities, which could result in disallowed costs by the federal awarding agency.</p> <p><u>Recommendation</u></p> <p>The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed during the initial processing and revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>Section 8 Housing Choice Voucher CFDA. No. 14.871</p>	<p>concerning the eligibility of participants and will reduce the possibility of cost disallowances.</p> <p>Condition 02-4</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p>\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.</p>	
<p>Community Services Block Grant CFDA No. 93.569</p>	<p>Condition 02-5</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p>	<p style="text-align: center;">\$ <u>-0-</u></p>
	<p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p>	
	<p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
----------------	------------------------------	-----------------------------

Effect

The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

-17-

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Head Start CFDA No. 14.218	Condition 01-1 During our examination of reporting requirements procedures, we noted that the program does not submit the Financial Status Report (SF 269) on time.	Condition was not observed.
Disaster Recovery CFDA No. 14.218	Condition 01-2 During our examination of cash management, we noted that the program maintains a high balance of cash in bank.	Condition was not observed.
Ryan White CFDA No. 93.918	Condition 00-1 During our examination of reporting requirements procedures, we noted that the program does not submit the Federal Cash Transaction Report for December 1999 on time.	Condition was not observed.
Welfare to Work CFDA No. 17.253	Condition 00-2 During our examination of reporting requirements procedures, we noted that the program does not submit the monthly report ending March and April 2000 on time.	Condition was not observed.
CDBG CFDA No. 14.218	Condition 00-3 During our examination of cash management procedures, we noted that the program reported an overdraft in February 2000.	Condition still prevails.

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

CORRECTIVE ACTION PLAN

October 18, 2002

Cognizant or Oversight Agency for Audit:

Municipality of Bayamón respectfully submits the following corrective action plan for the year ended June 30, 2002

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2002

The findings from the June 30, 2002 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 02-1: Child and Adult Care Food Program - CFDA No. 10.558

Reportable Condition: See Condition 02-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.



Action Taken

The program Director is evaluating the actual process for requesting funds to establish new procedures of forecasting cash needs in order to correct or minimize failures to comply with cash management requirements.

Finding 02-2: HOME Investment Partnership Program - CFDA No. 14.239

Reportable Condition: See Condition 02-2

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.

Action Taken

The updating of IDIS has been finished. The program directors are working on the necessary procedures to correct the situation noted during the audit examination.

Finding 02-3: HOME Investment Partnership Program - CFDA No. 14.239

Reportable Condition: See Condition 02-3

Recommendation

The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed during the initial processing and revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Action Taken

The **Truth in Lending Disclosure Statement** of the 3 participant files which were missing were subsequently found by us. Apparently, they were misplaced within the files and were not found by the auditors. In regard to the recommendation to design and adopt a checklist that includes all the related documents that must be completed for each

participant file, please be informed that we have such checklist. We are reviewing the existing checklist to ascertain that it all inclusive and that it be used.

Finding 02-4: Section 8 Housing Choice Voucher - CFDA No. 14.871

Reportable Condition: See Condition 02-4

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.

Action Taken

The program Director is evaluating the actual process for requesting funds to establish new procedures of forecasting cash needs in order to correct or minimize failures to comply with cash management requirements.

Finding 02-5: Community Services Block Grant - CFDA No. 93.569

Reportable Condition: See Condition 02-5

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.

Action Taken

The program Director is evaluating the actual process for requesting funds to establish new procedures of forecasting cash needs in order to correct or minimize failures to comply with cash management requirements.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Isabel Vega, Finance Director, at (787) 785-6360.

Sincerely yours,



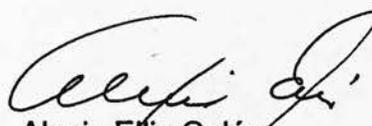
Ana M. Feliciano Labarca
Interim Finance Director
Municipality of Bayamón



José García
CSBG Director



Nilia Torres Román
Child and Adult Care
Food Program Director/
Head Start Director



Alexis Ellis Colón
Housing Director