

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

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

OFIC. DEL COMISIONADO
ASUNTOS MUNICIPALES

03 APR 16 PM 1:34

RECIBIDO
UNIDAD DE CORREO

SINGLE AUDIT PACKAGE
MUNICIPALITY OF CAGUAS

Fiscal Year Ended
June 30, 2002

TABLE OF CONTENTS

Page

AUDITORS' SECTION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	1
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	6
REPORT ON THE STATUS OF UNCORRECTED MATERIAL FINDINGS AND RECOMMENDATIONS FROM PRIOR AUDITS THAT AFFECT THE FINANCIAL STATEMENT AUDITS AS REQUIRED BY GOVERNMENT AUDITING STANDARDS	20

AUDITEE'S SECTION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AS REQUIRED BY OMB CIRCULAR A-133.....	23
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	25
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	26
CORRECTIVE ACTION PLAN.....	27

Member of
PKF International Limited
an association of independent accounting,
auditing and consulting firms



Auditors and Consultants

1056 Muñoz Rivera Avenue Suite 304
San Juan, Puerto Rico 00927-5013
Telephone: (787) 754-6615
Telefax: (787) 765-9405

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

Hon. William Miranda Marín
Mayor
Commonwealth of Puerto Rico
Municipality of Caguas

We have audited the financial statements of the Municipality of Caguas as of and for the year ended June 30, 2002 and have issued our report thereon dated December 14, 2002. 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 of America.

Compliance

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

Internal control over financial reporting

In planning and performing our audit, we considered the Municipality of Caguas's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

PANNELL KERR FORSTER, LLP

Hon. William Miranda Marin
Mayor
Commonwealth of Puerto Rico
Municipality of Caguas
Page 2

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Caguas's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 2002-1 through 2002-5.

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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe findings 2002-2 to 2002-5 described on section 2 of the schedule of findings and questioned costs are material weaknesses.

This report is intended solely for the information of the Mayor, the Municipal Assembly, management, and 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.



December 14, 2002

Pannell Kerr Forster

License No. 22

Expires on December 1, 2004

PANNELL KERR FORSTER, LLP

Member of
PKF International Limited
an association of independent accounting,
auditing and consulting firms



Auditors and Consultants

1056 Muñoz Rivera Avenue Suite 304
San Juan, Puerto Rico 00927-5013
Telephone: (787) 754-6615
Telefax: (787) 765-9405

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

Hon. William Miranda Marín
Mayor
Commonwealth of Puerto Rico
Municipality of Caguas

Compliance

We have audited the compliance of the Municipality of Caguas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Municipality of Caguas's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Caguas's management. Our responsibility is to express an opinion on the Municipality of Caguas'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 of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Caguas's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

Pannell Kerr Forster, LLP

Hon. William Miranda Marín
Mayor
Commonwealth of Puerto Rico
Municipality of Caguas
Page 2

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality of Caguas's compliance with those requirements.

As described in item 2002-6 in the accompanying schedule of findings and questioned costs, the Municipality of Caguas did not comply with requirements regarding cash management that is applicable to its Community Development Block Grant, Section 8 Housing Choice Voucher, and Home Investment Partnerships major federal programs. Compliance with such requirement is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

As described in item 2002-7 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with requirements regarding equipment and real property management that is applicable to its Community Development Block Grant, Home Investment Partnerships, Section 8 Housing Choice Voucher, and Head Start major federal programs. Compliance with such requirement is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

In our opinion, except for the instances of noncompliance described in the preceding paragraphs, the Municipality of Caguas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2002.

Internal control over compliance

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

Hon. William Miranda Marín
 Mayor
 Commonwealth of Puerto Rico
 Municipality of Caguas
 Page 3

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

Schedule of expenditures of federal awards

We have audited the general-purpose financial statements of the Municipality of Caguas as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 14, 2002. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, the Municipal Assembly, management, and 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.



Pannell Kerr Forster
 License No. 22
 Expires on December 1, 2004

March 21, 2003

Pannell Kerr Forster, LLP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2002

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | |
|---|-----|
| 1. Material weakness identified? | Yes |
| 2. Reportable condition(s) identified not considered to be material weakness? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal awards:

Internal control over major programs:

- | | |
|--|----|
| 1. Material weakness(es) identified? | No |
| 2. Reportable condition(s) not considered to be material weaknesses? | No |

Type of auditor's report issued on compliance for major program? Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)? Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlement
93.600	Head Start Administration for Youth and Children
14.239	Home Investment Partnerships Program
14.871	Section 8 Housing Choice Voucher
-	Guaranteed Loan \$8,000,000

Dollar threshold used to distinguish between Type A and Type B programs: \$862,420

Auditee qualified as a low-risk auditee? No

SECTION 2 – FINANCIAL STATEMENT FINDINGS

**Finding No. 2002-1
(First reported in year 1996-97)**

Program CFDA No. / Grant No.:	N/A
Type of Reportable Condition:	Internal Control Structure Design
Questioned Cost:	None

Condition: Transactions of enterprise activities are recorded as part of the special revenue and capital project governmental funds.

Because of the above, we observed the following situations:

- The depreciation expense of building for Consolidated Mall, Fine Arts Center, "Edificio Multifabril" and Turabo Park were not recorded in an enterprise proprietary fund type.
- The additions of capital assets (building, improvements, and construction in progress) for Fine Arts Center are not capitalized in the general ledger as part of the total property, plant, and equipment.
- The additions of loans receivable disbursed by the Economic Development Bank for year 2001-2002 were recorded as expenditures in the Special Revenue Fund.
- The principal collections of the above mentioned loans for year 2001-2002 were recorded as revenues in the Special Revenue Fund.

Criteria: Puerto Rico municipalities should implement accounting system that is in accordance with generally accepted accounting principles. [Puerto Rico Municipality Law (Law 81) article number 8.010].

Specifically, Puerto Rico municipalities should record their financial transactions using fund accounting. [Puerto Rico Municipality Law (Law 81) article number 8.010(b)].

The generally accepted accounting principles applicable to governmental entities through its principles: NCGA Statement 1, NCGA Interpretation 5, GASB Statement 6, GASB Statement 9, GASB Statement 14, GASB Statement 25, GASB Statement 27, and GASB Statement 31, establish the statement of principles related to: (a) fund accounting systems, (b) types of funds, and (c) number of funds.

Cause: The Law 81 requires that the accounting system to be implemented by the municipalities is the one developed and approved by the Office of the Commissioner of Municipal Affairs (OCAM by its abbreviation in Spanish). Yet, due to the complexity and size of the Municipality of Caguas operations the OCAM accounting system does not provide enough funds to permit that all individual business-type activities be recorded separately.

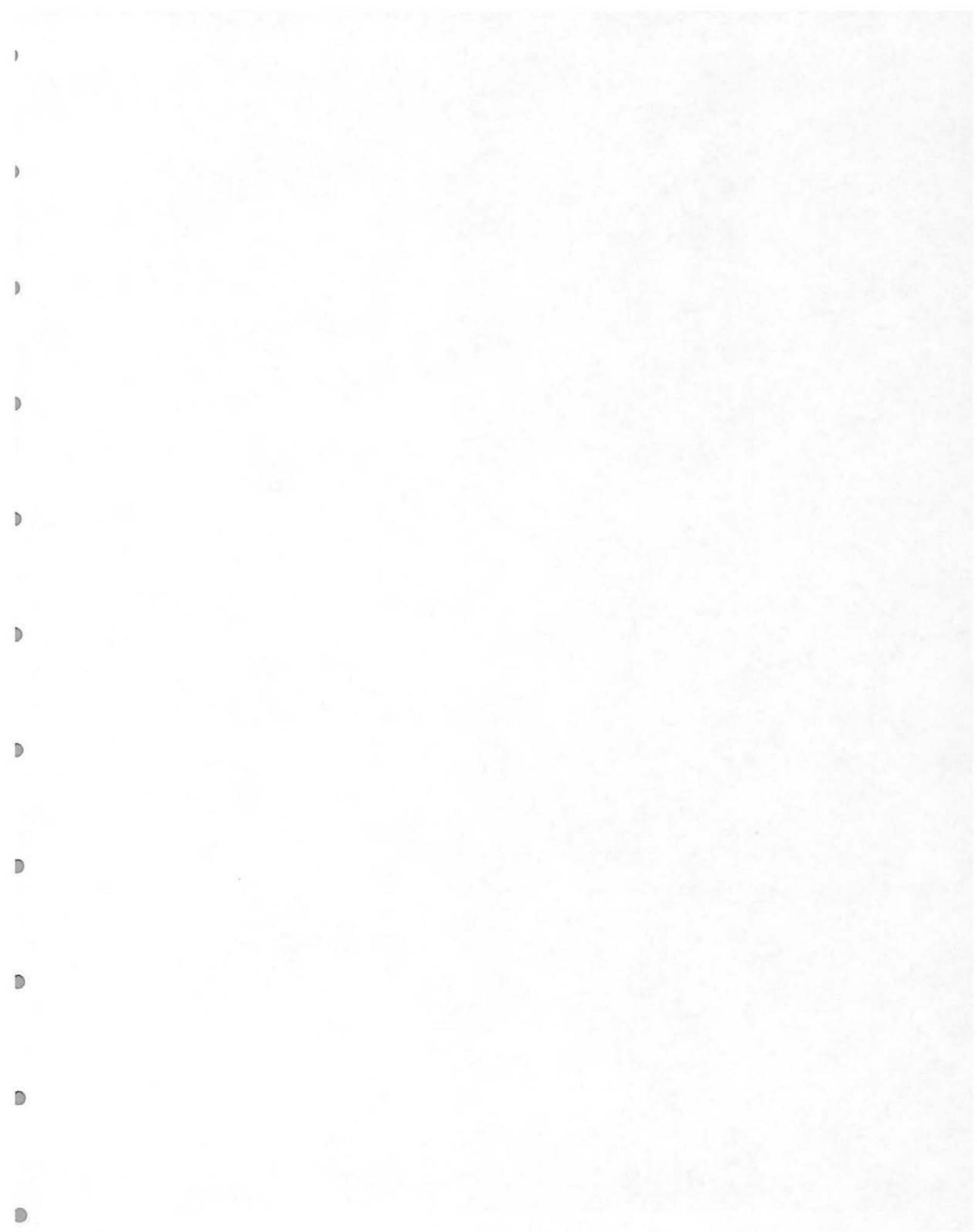
Effect: Because of the OCAM accounting system design limitations the Municipality of Caguas has to maintain manual accounting books for each individual business-type activity in order to assure that the specific activities are carried and the objectives are attained in accordance with special regulations, restrictions, or limitations of such transactions.

Also, since the governmental activities of the Municipality of Caguas are recognized on the flow of current financial resources measurement focus and the modified accrual basis of accounting, and the business-type activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, the special revenue capital project governmental funds include transactions recorded based on different measurement focus and basis of accounting.

Recommendation: Since article 8.010 of Law 81 permits OCAM to approve the design and implementation of other accounting systems besides the one developed by them, we suggest the Municipality's management request such authorization from OCAM. We also, suggest that the Municipality implements a financial accounting system that provides fiscal controls and accounting procedures that are:

1. In accordance with generally accepted accounting principles including:
 - a) Information pertaining to obligations, unobligated balances, assets, liabilities, expenditures, and income;
 - b) Effective internal controls to safeguard assets and assure their proper use;
 - c) A comparison of actual expenditures with budgeted amounts;
 - d) Source documentation to support accounting records; and
 - e) Proper charging of costs and cost allocation.
2. Sufficient to:
 - a) Permit the tracing of funds to a level of expenditures adequate to establish that funds have not been used in violation of the applicable restrictions on the use of such funds; and
 - b) Permit preparation of required reports, and financial statements in accordance with GASB 34 requirements.

In June 1999 the GASB issued GASB Statement No. 34 (Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government). The statement will have a significant effect on how the Municipality of Caguas prepares its external financial statements. GASB 34 establishes two bases for reporting financial information: (a) government – wide financial statements and (b) fund financial statements. The government –wide perspective financial statements adopt the flow of economic resources measurement focus and accrual basis of accounting (essentially the commercial accounting financial reporting model) for both governmental and business-type activities. The fund – level financial statements are similar to the actual financial statements of the Municipality. Capital assets, including infrastructure assets, and depreciation charges would be reported on the government – wide financial statements.



Long-term debt would be reported on the government – wide perspective financial statements. Account groups would no longer be presented in the Municipality's financial statements.

END FINDING NO. 2002-1

Finding No. 2002-2
(First Reported in Year 1996-97)

Program CFDA No. / Grant No:	N/A
Type of Reportable Condition:	Material Weakness Internal Control Structure Design
Questioned Cost:	None

Condition: The Municipality does not perform monthly reconciliations between cash control accounts in the OCAM Accounting System and the bank reconciliations.

Criteria: The Municipality of Caguas procedures and internal controls manual for the accounting area through its procedure 11 (Bank Reconciliation) establishes monthly procedures to be performed in order to reconcile the differences between the accounting records and the bank statements.

Due to the limitations of the OCAM accounting system, the Municipality reconcile the cash control accounts with the individual cash accounts and bank reconciliations.

Cause: No adequate reconciliation procedures are being performed between amounts per bank reconciliations and general ledger cash accounts. In addition, no adequate communication channels exist between the Accounting, Remittances and Disbursement Areas and the financial institutions in which the funds are held.

Effect: Total cash at June 30, 2002 was misleading.

Recommendation: Once the Municipality begins to operate the new accounting system, we suggest that the Municipality's Finance Department performs monthly reconciliations. Any difference between amounts per bank reconciliations and general ledger control accounts should be identified, investigated and posted in the general ledger on a timely basis. The performance of such procedures will aid in maintaining complete and accurate financial records and achieving more efficient audit procedures.

Finding No. 2002-3
(First Reported in Year 1999-2000)

Program CFDA No. / Grant No.:	N/A
Type of Reportable Condition:	Material Weakness Internal Control Structure Design
Questioned Cost:	None

Condition: Interfund transactions were not balanced at June 30, 2002.

Criteria: Puerto Rico municipalities should implement accounting system that is in accordance with generally accepted accounting principles. [Puerto Rico Municipality Law (Law 81) article number 8.010]

“.....because each fund is a fiscal and accounting entity, the amounts due to one fund from other funds, as well as the amounts owed to other funds, should be reflected in the fund accounts and in fund financial statements”. [GASB Cod. Sec. 1300.110]

Cause: Interfund transactions recorded incorrectly in the OCAM system.

Effect: The balances of interfund transactions were materially misstated at June 30, 2002.

Recommendation: We suggest that the Municipality’s Finance Department performs monthly monitoring procedures over the status of the interfund transactions. A matrix listing the receivable funds on the left and the payable funds across the top can be useful for monitoring the status of the interfund transactions. An example of such a matrix is as follows:

INTERFUND TRANSACTION MATRIX

<u>Receivable Funds</u>	<u>General</u>	<u>Payable Funds</u>			<u>Total</u>
		<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	
General Fund	XXX		5,000	5,000	10,000
Special Revenue	25,000	XXX	15,000		40,000
Capital Projects		10,000	XXX	10,000	20,000
Enterprise			5,000	XXX	5,000
Total	25,000	10,000	25,000	15,000	75,000

Funds reading across are due money from each of the Payable Funds listed at the top. Funds reading down owe money to the Receivable Funds listed on the left. At the end of the month, all interfund accounts should be verified against the matrix to determine whether they are still in agreement.

END FINDING NO. 2002-3

Finding 2002-4
(First Reported in Year 1999-2000)

Program CFDA No. / Grant No.:	N/A
Type of Reportable Condition:	Material Weakness Internal Control Structure Design
Questioned Cost:	None

Condition: During fiscal year 2001-2002, Federal grants were recorded as revenue when the resources were received instead of when the related expenditure was made.

Criteria: Puerto Rico municipalities should implement accounting system that are in accordance with generally accepted accounting principles. [Puerto Rico Municipality Law (Law 81) article number 8.010].

Grants, entitlements, or shared revenues in governmental funds should be recognized as revenue in the accounting period when they become susceptible to accrual, that is, both measurable and available (modified accrual basis). In applying this definition, legal and contractual requirements should be carefully reviewed for guidance. Some such resources, usually entitlements or shared revenues, are restricted more in form than in substance. Only a failure on the part of the recipient to comply with prescribed regulations will cause a forfeiture of the resources. Such resources should be recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met. For other such resources, usually grants, expenditure is the prime factor to determining eligibility, and revenue should be recognized when the expenditure is made. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements. [NCGAS 2, p 11].

Cause: Federal grants transactions recorded incorrectly in the OCAM system.

Effect: The balance of deferred Federal grants, Federal revenues, and expenditures were materially misstated at June 30, 2002.

Recommendation: We suggest the implementation of a formal training program for the Finance Department's personnel, in governmental accounting and financial reporting topics.

END FINDING NO. 2002-4

Finding 2002-5
(First Reported in Year 1997-98)

Program CFDA No. / Grant No.:	N/A
Type of Reportable Condition:	Material Weakness Internal Control Structure Design
Questioned Cost:	None

Condition: The Municipality did not make the record keeping of the expenditures related to the construction of capital assets (building and improvements) in the general fixed assets account group as construction in progress when the expenditures are incurred in the capital project fund.

Criteria: Puerto Rico municipalities should implement accounting system that are in accordance with generally accepted accounting principles. [Puerto Rico Municipality Law (Law 81) article number 8.010].

Fixed assets other than those accounted for in the proprietary funds or trust funds are general fixed assets. General fixed assets are accounted for in the General Fixed Assets Account Group rather than in the governmental funds. [NCGAS 1, p 38].

Cause: The Finance Department did not record real property acquired through governmental funds in the OCAM system.

In addition, the buildings constructed by the Municipality were recorded in the General Fixed Asset Account Group when its construction was finished based on the costs accumulated in the construction subsidiary ledger maintained by the Department of Public Works instead of been recorded as construction in progress when the costs were incurred and paid through the capital project fund.

The Municipality did not make record keeping of the expenditures related to the construction of real property in the general fixed assets account group as construction in progress when the expenditures are incurred in the capital project fund.

To determine the construction in progress of capital assets the Municipality's Finance Department depends of construction in progress reports prepared in the Municipality's Department of Public Works. Yet, such reports are not provided on a timely basis, because the Department of Public Works personnel does not understand the importance of such data in the preparation of the annual general purpose financial statements of the Municipality.

Effect: The General Fixed Asset Account Group was materially understated at June 30, 2002.

In addition, the Municipality's accounting records do not reflect its investments in capital assets (buildings and improvements) until its construction is completed, which may take more than one fiscal year to happen. Finally, there is no way to verify if the construction subsidiary ledger maintained by the Department of Public Works is accurate against the Municipality accounting records.

Recommendation:

We suggest the implementation of a formal training program for the Finance Department's personnel, in governmental accounting and financial reporting topics.

The Municipality should make the record keeping of the expenditures related to the construction of capital assets (buildings and improvements) in the General Fixed Assets Account Group as construction in progress when the expenditures are incurred.

On a monthly basis the construction in progress account in the general ledger should be reconciled against the construction subsidiary ledger maintained by the Department of Public Works (after verifying its completeness, accuracy, and reliability) and any differences investigated and/or adjusted as necessary.

SECTION 3 – FEDERAL AWARDS FINDINGS**Finding 2002-6**

Program CFDA No. / Grant No.:	14.218 Community Development Block Grant 14.239 Home Investment Partnerships Program 14.871 Section 8 Housing Choice Vouchers
Type of Reportable Condition:	Non-compliance – Cash Management
Questioned Cost:	None

Condition: During fiscal year ended June 30, 2002, the Municipality did not minimize the amounts maintained in bank accounts. After consider pending recoveries of fiscal year ended June 30, 2002 the total cash balances were the follows:

Program	Bank balance as of June 30, 2002	Federal funds reimbursed by the federal agency during year 2002-2003 of requests made during year 2001-2002	Recoveries made by general fund during year 2002-3003 of federal funds disbursed during year 2001-2002 by General Fund	Total Balance
Home Investment Partnerships Program	\$ 311,075	\$ -	\$ (21,715)	\$ 289,360
Section 8 Housing Choice Vouchers	\$1,345,630	\$500,824	\$(115,353)	\$1,731,101
Community Development Block Grant	\$ 126,391	\$213,928	\$(178,660)	\$ 161,659

In addition, the Community Development Block Grant and Emergency Shelter Grant funds were maintained in the same bank account.

Criteria: 29 CFR 97.21 (c) (cash management requirements) provides that grantees and subgrantees are to be paid on the advance method provided they have a system in place to minimize the time elapsed between receipt of Federal funds and actual disbursements.

The Common Rule, Subpart A .20(7) establishes that procedures for minimizing the elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform

substantially to the same standards of timing and amount as apply to advances to the grantees.

Cause: The Municipality does not have a formal defined payment policy and did not time its payments clearance patterns to coincide with the receipt of cash in the above mentioned programs.

Effect: The Municipality does not manage Federal cash effectively and is not in compliance with 29 CFR 97.21 (c).

Recommendation: To improve cash management, the Municipality of Caguas should time their projected payments clearance patterns to coincide with the receipt of cash from federal agencies.

In order to time disbursements to improve cash management we suggest the Municipality the development of cash management procedures that include a payment policy and the establishment of a formal disbursement cycle for the program.

The disbursement cycle and payment policy for the Municipality may be weekly, biweekly, or on some other cycle. In addition, projections and timing are important for good cash management. As a general rule, the Municipality should use clearance date rather than date of disbursement to determine cash needs.

Also, we suggest that the Municipality implements cash forecasting procedures. Cash forecasting procedures identify specific needs within a specific period. Cash forecasting may be daily, weekly, on some other defined disbursement cycle, or as needed. The point is not to prescribe a specific cash forecast period, but to gear the cycle to when cash is actually paid out at the bank. A valid clearance pattern is an acceptable method of cash forecasting.

Finding 2002-7

Program CFDA No. / Grant No.:	93.600 Head Start 14.218 Community Development Block Grant 14.239 Home Investment Partnerships Program 14.871 Section 8 Housing Choice Vouchers
Type of Reportable Condition:	Non-compliance – Equipment and real property management
Questioned Cost:	None

Condition: The Municipality coded as “HUD”, in the property and equipment subsidiary all units acquired with federal funds of this federal agency and did not segregate in the list of properties purchased with HOME Program funds, Community Development Block Grant (CDBG) and Section 8 Program.

In addition, during our review of the Head Start Property Register we noted various instances in which the register did not include the physical location, the Property Maintenance Sheets were not prepared until we requested them and some properties were not marked with a tag number.

Criteria: Compliance Supplement of Circular A-133, Part 3, section F (Equipment and Property Management) establishes that the local governments shall follow the A-102 Common Rule for equipment acquired with federal awards.

Circular A-102 (Common Rule), section .32 requires that property records must be maintained to include a description of property, serial number, or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, percentage of federal participation in the cost of property and any ultimate disposition data including the date of disposal and sales price of the property.

Cause: The person in charge of recording property in the accounting records does not identify the specific source of funds from which the acquisitions were made. In addition the persons in charge of maintaining such registers do not understand the importance of such information.

Effect: This situation caused an instance of non compliance with Circular A-102, section 32.

Recommendation: We recommend the inclusion of the information missing in the Property Registers to ensure that it complies with Circular A-102 cited above. Also, we recommend that monthly reconciliation between the Property Register and the Municipal Property Subsidiary Ledger be performed and any difference investigated and/or adjusted as required by the circumstances. Finally, specific instructions should be provided to personnel in charge of recording property acquisitions in order to identify the federal funds with which the equipment was acquired.

END FINDING NO. 2002-7

**REPORT ON THE STATUS OF UNCORRECTED
MATERIAL FINDINGS AND RECOMMENDATIONS
FROM PRIOR AUDITS THAT AFFECT THE FINANCIAL
STATEMENT AUDITS AS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

Findings 2001-1 and 2000-1

Audit finding description:

Transactions of business-type activities are recorded as part of the special revenue and capital project governmental funds.

Because of the above we observed the following situations:

- *The sale of units of the Consolidated Mall, and depreciation expense of building for Consolidated Mall, Fine Arts Center, and Turabo Park were not recorded in an enterprise proprietary fund type.*
- *The additions of capital assets (building, improvements, and construction in progress) for Consolidated Mall and Fine Arts Center are not capitalized in the general ledger as part of the total property, plant, and equipment.*
- *The additions of loans receivable disbursed by the Economic Development Bank for year 2000-2001 were recorded as expenditures in the Special Revenue Fund.*
- *The collection of the above mentioned loans for year 2000-2001 were recorded as revenues in the Special Revenue Fund.*

Audit finding status

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-1

Findings 2001-2 and 97-1

Audit finding description:

The following unreconciled items were identified through our analysis of bank reconciliation's at June 30, 2001:

<i>Bank account name</i>	<i>Reconciling items</i>
<i>Operating Account</i>	<i>\$20,148,176</i>
<i>Consolidated Mall</i>	<i>4,003,966</i>
<i>UDAG Project</i>	<i>(663,516)</i>
<i>CDBG Program</i>	<i>427,828</i>
<i>EMP 15,955,000</i>	<i>(10,283)</i>

<i>EMP 13,300,000</i>	3,271,080
<i>EMP 5,065,000</i>	1,136,813
<i>Section 108</i>	(61,234)
<i>Rural Road Improvements</i>	264,823
<i>Economic Development Bank</i>	798,594
<i>Commercial Loans</i>	13,155
<i>Loans Citibank</i>	(309,206)
<i>Loans to Ambulatory Sellers</i>	66,653
<i>Development Loans</i>	322,200
<i>HIV Relief Program</i>	(6,987)
Total	\$29,402,062

Such unreconciled items include the following situations:

- *Electronic bank transfers of cash remitted from various federal agencies, as well as interests on such accounts not booked on accounting records.*
- *Considerable amount of outstanding checks not booked in the accounting records.*
- *Disbursements restricted for loans approved by the Municipality's Economic Development Bank and construction projects financed through various loans approved by the Governmental Development Bank for Puerto Rico not booked in the accounting records.*

Audit finding status

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-2

Findings 2001-3 and 2000-2

Audit finding description:

Interfund transactions were not balanced at June 30, 2001.

Audit finding status

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-3

Findings 2001-4 and 2000-5

Audit finding description:

During fiscal year 2000-2001, Federal grants were recorded as revenue when the resources were received instead of when the related expenditure was made.

Audit finding status

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-4

Findings 2001-5, 2000-6 and 98-3

Audit finding description:

During fiscal year 2000-2001 the real property acquired through governmental funds were not reported in the General Fixed Assets Account Group (GFAAG).

In addition, the Municipality does not make the record keeping of the expenditures related to the construction of capital assets (building and improvements) in the general fixed assets account group as construction in progress when the expenditures are incurred in the capital project fund.

Audit finding status

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-5

Findings 2001-6, 98-1 and 97-6

Audit finding description:

The general fund vouchers payable subsidiary report as of June 30, 2001 included \$6,103,634 in vouchers payable that were already paid at such date. In addition, the detail of outstanding encumbrances for all funds are not tied with fund balance reserved for encumbrance control accounts.

Audit finding status

Corrective action was taken

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AS
REQUIRED BY OMB CIRCULAR A-133**

Finding 2001-7

Audit finding description:

During fiscal year ended June 30, 2001, the Municipality did not limit federal cash remittances to minimum amounts needed and did not time their advances and refunds to meet its immediate cash needs.

The federal cash flows for the fiscal year ended June 30, 2001 were as follows:

<i>Major Program</i>	<i>Cash Beginning Balance</i>	<i>Cash requested from Federal Agency</i>	<i>Dollars Paid Out</i>	<i>Interest income</i>	<i>Cash Ending balance</i>
<i>Community Oriented Policing Services</i>	\$ 40,226	\$ 515,640	\$ 515,529	\$ 2,369	\$ 42,706
<i>Child and Adult Care Food Program</i>	179,085	847,841	747,281	9,948	289,593
<i>Community Development Block Grant</i>	32,271	9,230,571	9,139,846	1,052	124,048
<i>Home Program</i>	332,224	1,068,877	1,308,759	53	92,395
<i>Urban Development Action Grant</i>	7,528	1,019,597	1,000,002	10	27,133
TOTALS	\$591,334	\$12,682,526	\$12,711,417	\$13,432	\$575,875

Audit finding status:

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-5

Findings 2001-8 and 98-8

Audit finding description:

During our review of the Municipality's Housing Department Property Register we noted that the Municipality does not segregate the list of properties purchased with HOME Program funds from the rest of the properties owned.

In addition, during our review of the Head Start and CDBG Program Property Registers we noted various instances in which the registers did not include the physical location (Head Start Program) and unit cost and acquisition date (CDBG Program).

Audit finding status:

Corrective action was not taken and the same situation was mentioned in Audit Finding 2002-7

Finding 2001-10

Audit finding description:

We observed that the Municipality's Housing Department did not establish a maximum per unit subsidy dollar threshold for approving Home Program's subsidies to applicants.

Audit finding status:

Corrective action was taken.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2002

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
US Department of Agriculture	Rural Loan and Grant Program (EMP 2,231,000)	N/A	B-88-MC-72-0001	94,889
	Rural Loan and Grant Program (EMP 8,000,000)	N/A	B-98-MC-72-0001	1,715,958
Pass-through PR Department of Education	USDA Food Program	10.558	N/A	668,077
Pass through PR Department of Family	Geriatric Elderly Care Program	93.044		123,708
US Department of Health and Human Services	CSBG LEY 105-285	93.569		15,623
	Head Start Program	93.600	02-CH-0263-17 02-CH-0263-18	8,349,788
	HIV Emergency Relief Project Grant	93.915		2,053,271
	SENDEC	93.575		316,132
	Self Help Housing	N/A	63-05-066-0433568	85,659
	SSA TITLE V (Abstinencia Sexual)	93.110	1-H1D-MC-00145-01	35,265
US Department of Housing and Urban Development	Community Development Block Grant	14.218	B-01-MC-72-0001	7,629,445
	Emergency Shelter Grant	14.231	S-01-MC-72-0005	75,456
	Home Investment Partnership Program	14.239	M-01-MC-72-0203	659,800
	Section 8 Housing Choice Vouchers	14.871	RQ-007-V0	5,528,236
	Urban Development Action Grant	14.221	N/A	509,613
US Department of Justice	Community Oriented Policing Services	16.710	1996-UM-WX-1321	286,501
	Edward Byrne Memorial (Centro de Vida Familiar)	16.579		148,721
	Local Law Enforcement (Radio/patrulla Policia)	16.592		202,193
Federal Emergency Management Agency Pass- through The Office of the Governor of Puerto Rico	Disaster Assistance	83.516	N/A	134,001
Federal Transportation Administration	ADA Paratransit Plan	N/A	N/A	-
US Economic Development Administration (EDA)	Economic Development Loan Program	N/A	N/A	115,000
Total Expenditures				\$ 28,747,336

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2002

NOTE 1 – GENERAL

The accompanying schedule of expenditures of federal awards presents the expenditures, for the fiscal year ended June 30, 2002, of all the federal assisted programs of the Municipality of Caguas.

NOTE 2 – ACCOUNTING BASIS

The schedule was prepared following the modified accrual basis of accounting, which is further explained in note 1 of the general purpose financial statements of the Municipality of Caguas for the fiscal year ended June 30, 2002.

NOTE 3- SUBRECIPIENTS

During fiscal year 2001-02, the Municipality expended \$1,715,113 in subrecipients for the realization of healthcare, public service, and community development projects. The following were the entities awarded with federal financial assistance programs:

Federal Program	Entity	Amount Expended
HIV Relief Emergency Project Grant	"Centro Clínico Nuevas Actitudes"	\$16,087
	"Asociación Familiares y Amigos Pacientes SIDA"	81,420
	"Fundación de Desarrollo Comunal" (FUNDESCO)	33,800
	"Voluntarios Acción SIDA"	6,832
	Gurabo Community Health Center	556,575
	Hogar CREA Juncos	442,339
	"APSAPS-Asociación Puertorriqueña de Pacientes de SIDA"	232,742
Subtotal		1,369,795
Emergency Shelter Grant	<i>Milagros del Amor Corporation</i>	22,498
	"Instituto de Orientación y Terapia Familiar" (INOTEF)	16,213
	"Centro Clínico Nuevas Actitudes"	5,272
	"Hogar Resurrección"	41,469
	"Fundación de Desarrollo Comunal" (FUNDESCO)	33,137
Subtotal		118,589
Community Development Block Grant Entitlement	"Instituto de Orientación y Terapia Familiar" (INOTEF)	54,112
	Adolescent Suicide Prevention Program	122,617
Subtotal		176,729
Home Program	"Iniciativa Comunitaria para la Rehabilitación" (INCORE)	50,000
Subtotal		50,000
Total		\$1,715,113

CORRECTIVE ACTION PLAN

Contact Persons:	Mr. Carlos Crespo Massa - Director of Finance Mr. Víctor M. Coriano Reyes - Internal Auditor
Phone number:	(787) 653-8833 ext. 1310 (787) 653-8833 ext. 2701
Fax:	(787) 258-1650 (787) 258-6482

FINDING 2002-06

As a result of this deficiency, we transferred the cash management functions from the Disbursements Division to a separate Cash Management Division in the Finance Department. Since this, we perform better procedures to limit cash advances to meet our immediate cash needs.

Although this finding seems that we request advances by letter-of-credit to make disbursements, what we do is make all the disbursements from our local funds bank account, and then request federal funds to recover our funds. The time elapsing between the receiving and the disbursement of the federal funds is related to the time our Organization delays in recovering the funds.

After disbursements are made, we prepare written relations with a copy of each voucher and send it to the respective departments in charge of federal programs administration, for the requesting of the funds by line-of-credit. Once we are informed of the availability of the federal funds, then we recover them by making a check from the special bank account.

On the other hand, we are changing from a closed platform to an open platform, web enabled accounting system. We hope that this change will enable us to continue making adjustments to comply with federal regulations related with cash management procedures, such as to have online access in the Finance Department to trace, on a daily basis, the availability of the federal funds requested.

COMPLETION DATE: SEPTEMBER 2003

FINDING 2002-07

The persons in charge of the municipality's property will be instructed to record and codify the property and equipment units acquired with funds of the US Department of Housing and Urban Development (HUD) in order to identify easily the specific federal fund with which each unit was acquired, such as HOME, CDBG and Section 8 programs.

Also, the person in charge of recording the Head Start's property acquisitions will be instructed to perform a general inventory in order to ensure that all units' physical location are included in the official register, and that their respective maintenance sheets are prepared.

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

03 APR 16 PM 1:34

RECIBIDO
UNIDAD DE CORREO

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES
03 JAN 21 AM 10:47
RECIBIDO
UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

GENERAL PURPOSE FINANCIAL STATEMENTS
(with Independent Auditors' Report Thereon)

FISCAL YEAR ENDED
JUNE 30, 2002

←
Ord #02-5809

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	2
General Purpose Financial Statements:	
Combined Balance Sheet-All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	6
Statement of Revenues and Expenditures – Budget and Actual General Fund – Non GAAP Budgetary Basis	7
Statement of Revenues, Expenses and Changes in Retained Earnings- Proprietary Fund Type	8
Statement of Cash Flows – Proprietary Fund Type	9
Notes to the General Purpose Financial Statements	10

Member of
PKF International Limited,
an association of independent accounting,
auditing and consulting firms



Auditors and Consultants

1056 Muñoz Rivera Avenue Suite 304
San Juan, Puerto Rico 00927-5013
Telephone: (787) 754-6615
Telefax: (787) 765-9405

INDEPENDENT AUDITOR'S REPORT

Hon. William Miranda Marín
Mayor
Commonwealth of Puerto Rico
Municipality of Caguas

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

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 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 evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Caguas as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PANNEL KERR FORSTER, LLP

Hon. William Miranda Marín
Mayor
Commonwealth of Puerto Rico
Municipality of Caguas

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated December 14, 2002 on our consideration of the Municipality of Caguas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.



Pannell Kerr Forster

License No. 22

Expires December 1, 2004

Stamp number
1839871
was affixed to
the original of
this report

December 14, 2002

PANNELL KERR FORSTER, LLP

MUNICIPALITY OF CAGUAS

Combined Balance Sheet

All Fund Types and Account Groups
June 30, 2002

	Governmental Funds Types				Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenues	Debt Services	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debt	
Assets								
Cash and investments (note 1, 3 and 7)	\$ 20,249,760	\$ 25,224,592	\$ -	\$ 31,292,405	\$ 1,961,879	\$ -	\$ -	\$ 78,728,636
Cash with fiscal agent (note 1)	-	-	17,544,062	-	-	-	-	17,544,062
Municipal license taxes receivable (note 2)	109,766	-	-	-	-	-	-	109,766
Loans receivable	-	-	-	-	1,917,385	-	-	1,917,385
Federal grants receivable	-	6,110,431	-	-	-	-	-	6,110,431
Due from other funds (note 4)	5,414,407	4,683,017	-	-	-	-	-	10,097,424
Other receivables	100,435	97,171	-	-	69,255	-	-	266,861
Land	-	-	-	-	85,654	21,877,357	-	21,963,011
Property and equipment (notes 1 and 6)	-	-	-	-	16,587,921	129,555,078	-	146,142,999
Amount available in debt service fund (note 7)	-	-	-	-	-	-	10,782,760	10,782,760
Amount to be provided for retirement of bonds, notes and loans (note 7)	-	-	-	-	-	-	101,569,183	101,569,183
Amount to be provided for payment of legal claims (note 10)	-	-	-	-	-	-	1,408,774	1,408,774
Amount to be provided for payment of accrued compensated absences (note 1)	-	-	-	-	-	-	12,495,460	12,495,460
Total assets	\$ 25,874,368	\$ 36,115,211	\$ 17,544,062	\$ 31,292,405	\$ 20,622,094	\$ 151,432,435	\$ 126,256,177	\$ 409,136,752

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS

Combined Balance Sheet

All Fund Types and Account Groups

June 30,2002

	Governmental Fund Types				Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Services	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debt	
Liabilities and other credits								
Current portion of notes payable (note7)	\$ -	\$ -	\$ -	\$ -	\$ 51,000	\$ -	\$ -	\$ 51,000
Accounts payable and accrued liabilities	3,145,714	1,591,408	-	1,219,945	-	-	-	5,957,067
Intergovernmental payables (notes 1 and 5)	735,189	-	-	-	-	-	-	735,189
Due to other funds (note 4)	-	4,043,230	-	1,371,177	4,683,017	-	-	10,097,424
Deferred municipal license tax revenues (note 2)	15,478,835	-	-	-	-	-	-	15,478,835
Due to Federal Agency	-	-	-	-	-	-	-	-
Deferred federal grant revenues	-	2,266,561	-	-	-	-	-	2,266,561
Other accounts payable	661,802	-	-	-	-	-	-	661,802
General obligations payable (notes 1 and 7)								
Bonds	-	-	6,374,107	-	-	-	76,793,978	83,168,085
Notes	-	-	-	-	-	-	22,962,965	22,962,965
Federal loans and notes	-	-	-	-	698,000	-	12,595,000	13,293,000
Accrued compensated absences (note 1)	-	-	-	-	-	-	12,495,460	12,495,460
Accrued legal claims (note 1 and 10)	-	-	-	-	-	-	1,408,774	1,408,774
Total liabilities and other credits	20,021,540	7,901,199	6,374,107	2,591,122	5,432,017	-	126,256,177	168,576,163
Fund Equity								
Retained earnings	-	-	-	-	15,190,077	-	-	15,190,077
Investment in general fixed assets	-	-	-	-	-	151,432,435	-	151,432,435
Fund balances (note 1)								
Reserved for encumbrances	1,527,708	8,759,710	-	-	-	-	-	10,287,418
Reserved for debt service	-	-	11,169,955	-	-	-	-	11,169,955
Reserved for capital projects	-	-	-	6,878,204	-	-	-	6,878,204
Unreserved	4,325,120	19,454,301	-	21,823,079	-	-	-	45,602,500
Total fund equity retained earnings and other credit	5,852,828	28,214,011	11,169,955	28,701,283	15,190,077	151,432,435	-	240,560,589
Commitments and contingencies (notes 8, 9 and 10)								
Total liabilities and fund equity	\$ 25,874,368	\$ 36,115,211	\$ 17,544,062	\$ 31,292,405	\$ 20,622,094	\$ 151,432,435	\$ 126,256,177	\$ 409,136,752

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types

Fiscal Year Ended June 30, 2002

	Governmental Funds Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Fund balances at beginning of year	\$ 4,869,214	\$ 15,562,688	\$ 9,914,472	\$ 11,873,332	\$ 42,219,706
Revenues (note 1,2 and 3)					
Property taxes	33,209,385	-	10,119,658	-	43,329,043
Municipal License Tax	19,606,492	-	-	-	19,606,492
Licenses and permits	6,091,534	132,247	-	-	6,223,781
Federal grants	-	26,142,854	-	-	26,142,854
Fines and penalties	184,562	-	-	-	184,562
Interest and investment income	812,867	231,188	-	594,407	1,638,462
Intergovernmental	7,526,432	3,537,223	-	1,332,269	12,395,924
Solid waste disposal	65,572	-	-	-	65,572
Parking lot fees	274,341	-	-	-	274,341
Rent	364,971	700,445	-	-	1,065,416
Other	1,948,004	2,145,830	-	2,133,080	6,226,914
Total revenues	70,084,160	32,889,787	10,119,658	4,059,756	117,153,361
Expenditures (notes 1,7, 8, and 9)					
Current:					
General government	31,433,977	615,306	-	-	32,049,283
Public safety	4,986,367	851,025	-	-	5,837,392
Public works	17,987,883	1,045,694	-	1,233,484	20,267,061
Culture and recreation	4,949,997	531,343	-	-	5,481,340
Health and Welfare	4,031,031	9,290,576	-	-	13,321,607
Economic development	722,398	232,149	-	-	954,547
Education	1,617,116	8,626,093	-	-	10,243,209
Capital outlays	1,408,502	238,676	-	13,675,202	15,322,380
Debt service:					
Principal in general and special obligation bonds and notes	-	-	4,314,033	-	4,314,033
Interest in general and special obligation bonds and notes	-	-	4,253,598	-	4,253,598
Principal in federal loans and notes	-	-	580,000	-	580,000
Interest in federal loans and notes	-	-	698,114	-	698,114
Total expenditures	67,137,271	21,430,863	9,845,745	14,908,686	113,322,565
Other financing sources (uses) (Notes 1,2,5 and 7)					
Proceeds from debt refinancing	792,576	-	-	-	792,576
Proceeds from loan issuance	-	-	-	27,095,000	27,095,000
Operating transfer in	296,544	1,367,400	1,278,114	581,881	3,523,939
Operating transfer out	(3,052,395)	(175,000)	(296,544)	-	(3,523,939)
Total other financing sources (uses)	(1,963,275)	1,192,400	981,570	27,676,881	27,887,576
Fund balances at end of year	\$ 5,852,828	\$ 28,214,012	\$ 11,169,955	\$ 28,701,283	\$ 73,938,078

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS

Statement of Revenues and Expenditures
 Budget and Actual- General Fund
 Non GAAP Budgetary Basis

Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Revenues:			
Property taxes	\$ 31,944,639	\$ 33,209,385	\$ 1,264,746
Municipal license taxes	21,307,837	19,606,492	(1,701,345)
Licenses and permits	3,365,000	6,091,534	2,726,534
Fines and penalties	29,235	184,562	155,327
Interest and investment income	4,500,000	812,867	(3,687,133)
Intergovernmental	7,751,013	7,526,432	(224,581)
Solid waste disposal	-	65,572	65,572
Parking lot fees	285,355	274,341	(11,014)
Other financing sources	-	1,089,120	1,089,120
Rent	629,279	364,971	(264,308)
City Council Resolutions	4,169,215	4,169,215	-
Miscellaneous	-	1,948,004	1,948,004
	<hr/>	<hr/>	<hr/>
Total revenues	73,981,573	75,342,495	1,360,922
Expenditures:			
General government	34,469,168	31,586,675	2,882,493
Public safety	5,203,448	5,068,982	134,466
Public works	16,886,049	16,139,584	746,465
Culture and recreation	5,929,609	5,262,500	667,109
Health and welfare	4,465,042	4,258,838	206,204
Economic development	721,303	749,543	(28,240)
Education	1,749,581	1,699,430	50,151
Capital outlays	1,028,331	1,671,721	(643,390)
Operating transfer out	3,529,042	3,052,394	476,648
	<hr/>	<hr/>	<hr/>
Total expenditures	73,981,573	69,489,667	4,491,906
Excess of revenues over expenditures (note 1)	\$ -	\$ 5,852,828	\$ 5,852,828

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS

Statement of Revenues, Expenses and Changes in
Retained Earnings- Proprietary Fund Type
Year Ended June 30, 2002

Revenues:	
Charges for services	<u>\$ 887,874</u>
Expenses:	
Payroll and related expenses	460,964
General and administrative	216,005
Depreciation	<u>318,847</u>
Total expenses	<u>995,816</u>
Net operating (loss)	(107,942)
Retained earnings at beginning of year	<u>15,298,019</u>
Retained earnings at end of year	<u>\$ 15,190,077</u>

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS

Statement of Cash Flows- Proprietary Fund Type
Year Ended June 30, 2002

Cash flows from operations:	
Net (loss)	\$ (107,942)
Adjustments to reconcile net (loss) to net cash provided by operations:	
Depreciation	318,847
Bad debts	158,751
Decrease in other accounts receivable	1,285
(Decrease) in accounts payable	(55,883)
Increase in amounts due to governmental funds	<u>3,609,854</u>
Net cash provided in operating activities	<u>3,924,912</u>
Cash flows from investing activities:	
Payments of loans for economic development	(933,950)
Purchases of equipment	<u>321,549</u>
Net cash(used in) investing activities	<u>(612,401)</u>
Cash flows from capital and related financing activities:	
Proceeds from debt issuance	300,000
Principal payments on long-term debt	(51,000)
Purchases of capital assets	<u>(6,711,675)</u>
Net cash (used in) capital related financing activities	<u>(6,462,675)</u>
Net (decrease) in cash and cash equivalents	(3,150,164)
Cash and cash equivalents at beginning of year	<u>5,112,044</u>
Cash and cash equivalents at end of year	<u>\$ 1,961,880</u>

See notes to general purpose financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1 - Organization and summary of significant accounting policies

The Municipality of Caguas (the Municipality), founded in 1894, is a municipality of the Commonwealth of Puerto Rico. It is governed by a Major and a 16 member Municipal Assembly elected for a four-year term. The Municipality provides services to its residents in the areas of health, public works, education, public safety, urban development, economic development, culture and recreation, and other services.

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of significant accounting policies:

A. Financial 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 of the Governmental Accounting Standards Board (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 are financially accountable for the entity. Financial accountability exists if the 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 exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general purpose financial statements.

B. Measurement focus, basis of accounting, and basis of presentation

The accounts of the Municipality are organized and operate on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The various funds are summarized by type in the accompanying general-purpose financial statements. The Municipality records its transactions in the fund types and account groups described below.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Governmental fund types

Governmental funds are used to account for the Municipality's expendable financial resources and the related liabilities. The measurement focus is upon determination of any changes in financial position. Governmental funds are comprised of:

General fund

The general fund is used to account for all financial transactions, except those required to be accounted for in another fund.

Special revenue fund

Special revenue fund is used to account for the proceeds of specific revenue sources (other than debt service or capital projects) such as federal grants, that are legally restricted to expenditures for specified purposes.

Debt service fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital projects fund

Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

Proprietary fund type

Proprietary fund is used to account for activities, which are similar to operations in the private sector. The proprietary fund type consists of an enterprise fund.

Enterprise fund

The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation) be financed or recovered primarily through user charges, or where the Municipality has decided that periodic determination of revenues earned and expenses incurred is appropriate.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Account groups

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and the unmatured principal of its general long-term debt and other long-term obligations.

General fixed assets account group

This account group is used to account for all general fixed assets of the Municipality, other than those accounted for in the enterprise fund.

General long-term debt account group

This account group is used to account for all long-term debt including bonds, notes, loans and other long-term liabilities, other than those accounted for in the enterprise fund.

C. Basis of accounting

The basis of accounting determines when the Municipality recognizes revenues and expenditures/expenses and related assets and liabilities.

Governmental fund types follow the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

In applying the susceptible to accrual concept to governmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Municipality reports deferred revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when the Municipality receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and revenue is recognized.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Expenditures and related liabilities are generally recorded, except as described below, in the accounting period in which the liability is incurred. Expenditures and related liabilities for interest on long-term obligations, are recorded when due, except for interest due July 1st of the following year which is accounted for as paid on June 30. Vacation, sick leave, disallowances and litigation are recorded in the general long-term debt account group.

The general fund subsidizes part of the operations reported in the enterprise fund through operating transfers. The Municipality records operating transfers from the general fund to the enterprise fund to the extent the liabilities reported in the enterprise fund would be liquidated with expendable available financial resources. Since the amount of general compensated absences for the enterprise fund vested during 2001-2002 is not known, the required transfer from the general long-term debt account group was not recorded. As a result the amount due by the enterprise fund for accrued compensated absences is included in the general long-term debt account group.

Licenses, permits, service charges, fines and forfeits and miscellaneous revenues are recorded as revenues on the cash basis, which includes amounts collected shortly after June 30. Investment income is recorded as revenue when earned.

The enterprise fund follows the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash, except that pension contributions are not recorded in accordance with generally accepted accounting principles.

D. Budgetary accounting

The Municipality's annual budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipality's City Council prior to the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the City Council. Non-capital encumbrances lapse at the end of the next fiscal year.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund in the accompanying Statement of Revenues and Expenditures - Budget and Actual - General Fund is presented on the budgetary basis to enhance comparability.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

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

1. Encumbrances are considered as expenditures for budgetary purposes.
2. Prior year encumbrances settled during the year and recorded as expenditures for GAAP Basis.
3. Effect of GAAP basis accruals.
4. Effect of City Council resolutions less deferred revenue recognized as revenue during the year.

The following is reconciliation, of the differences between GAAP and the budgetary basis for the general funds excess of expenditures and other financing uses over revenues and other financing sources:

GAAP basis	\$ 983,614
Prior year encumbrances settled during the current year	2,227,707
Current year encumbrances treated as current year expenditures for budgetary purposes	(1,527,708)
Budgetary readjustments approved by the City Council	<u>4,169,215</u>
	<u>\$ 5,852,828</u>

E. Cash, cash equivalents, and investments

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

The Municipality of Caguas carried its investments at fair market value. At June 30, 2002 the Municipality had an unrealized loss on investments of approximately \$225,800. Investments are composed of highly liquid U.S. Treasury Securities which are covered by the provisions of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" therefore, the Municipality accounts for changes in the market value of its investments at the closing of the period.

Cash with fiscal agent reports property tax collections retained by the "Centro de Recaudaciones de Ingresos Municipales" (CRIM) and restricted for the payment of the Municipality's debt service.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

F. Interfund transactions

The Municipality has the following types of transactions among funds:

Operating transfers - Transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund. Transfers from the general fund to the enterprise fund to subsidize operations are recorded as operating transfers.

Receivables and payable - Transactions between funds outstanding at the end of the fiscal year are referred as due to/from other funds. The general fund provides services, at cost, to other funds. The amounts charged to other funds are treated as reductions in expenditures of the general fund.

G. General fixed assets

General fixed assets acquired or constructed are reported as expenditures in the fund that finances the acquisition and are capitalized at cost in the general fixed assets account group. Donated general fixed assets are reported at estimated fair market value at the date received.

Certain improvements such as roads, streets, bridges, curbs and gutters sidewalks are not capitalized. Such assets normally are immovable and of value only to the Municipality. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets. Depreciation is not recorded in the general-fixed assets account group.

H. Enterprise fund fixed assets

Property and equipment of the enterprise fund are stated at cost. Building depreciation is provided over the estimated useful life of fifty years on a straight-line basis.

I. Compensated absences

Employees accrue vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. This liability is presented in the general long-term debt account group because it will not be funded with available expendable financial resources at June 30, 2002.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, if the employee has at least 10 years of service with the Municipality. This liability is presented in the general long-term debt account group because it will not be funded with available expendable financial resources at June 30, 2002.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

General long-term debt for compensated absences amounts to \$12,495,460 includes \$5,123,139 of accrued vacation benefits and \$7,372,321 of accrued sick leave benefits, representing the Municipality's commitments to fund such compensated absences from future operations.

J. Long-term debt

The liabilities reported in the general long-term debt account group include the Municipality's general obligation bonds and notes, and other long-term liabilities including vacation, sick leave, and litigation.

K. Reserves of fund balance

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

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

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

Capital projects - Represent net assets available to finance future capital outlays.

L. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund. The general long-term debt account group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

M. Total (memorandum only) columns

Total columns on the general-purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of these data.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Note 2 - Annual revenues

A. Property taxes

The CRIM is responsible for the assessment of all real and personal property located within the Municipality of Caguas and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of assessment.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000. The Department of the Treasury instead of the property taxpayer becomes the source of payment in these cases.

The annual tax rate for fiscal year 2002 is 8.78% for real property and 6.78% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.00% and 4.00% respectively, represent the Municipality's basic property tax rate which is appropriated for general purposes and accounted in the general fund. Such amount is deposited by the CRIM in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

The Commonwealth also contributes an annual tax rate of .20% of each of the tax rates due to a discount granted by the state to the taxpayers.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality records the revenues related to property taxes, net of the operational expenses allocated by the CRIM to the Municipality, when such revenues are reported by the CRIM. During the fiscal year 2002 the allocated expenses amounted to \$1,148,800.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

The amount receivable or payable arising from the fiscal year end settlement of actual property tax collections versus property tax advances made by the CRIM to the Municipality is not known. Advances of property tax on (a) and (b) above, are recorded as revenues on the General Fund and Debt Service Fund, respectively. These amounts are preliminary and could be subject to changes. Changes will be recorded in the period reported by the CRIM.

B. Municipal license taxes

The Municipality imposes a volume of business tax pursuant to Act No. 82 of August 30, 1991, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending June 30.

The Municipality recognized an account receivable for the estimated municipal license taxes to be collected during next year but corresponding to current year and prior years. Principal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

Note 3 - Cash, cash equivalents, and investments

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

There are three categories of credit risk that apply to the Municipality's cash and investments:

1. Insured or collateralized with securities held by the Municipality's or by the Municipality's agent in the Municipality's name.
2. Collateralized with securities held by the pledging financial institution's trust department or the Municipality's agent in the Municipality's name.
3. Uncollateralized.

Balances held in each category are as follows:

	1	Categories 2	3	Bank Balance	Carrying Amount
Cash	\$27,530,143	\$ -	\$ 27,744,519	\$55,274,662	\$ 51,868,437
U.S. Government securities	-	-	6,267,600	6,267,600	6,267,600
Certificates of Deposits	-	20,592,599	-	20,592,599	20,592,599
	<u>\$27,530,143</u>	<u>\$ 20,592,599</u>	<u>\$ 34,012,119</u>	<u>\$ 82,134,861</u>	<u>\$ 78,728,637</u>

Deposits at the Government Development Bank are restricted principally for debt service and capital projects. These are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks. Therefore these have been categorized as "Uncollateralized" in the above table.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Note 4 - Interfund transactions

Due from/to other funds

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures.

Following is a summary of interfund assets and liabilities as of June 30, 2002:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Special Revenue	\$ 4,043,230
	Capital Project	<u>1,371,177</u>
General		<u>5,414,407</u>
Special Revenue	Enterprise	<u>\$4,683,017</u>

Note 5 - Intergovernmental receivables and payables

Sources of intergovernmental revenues are primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as Puerto Rico Electric Power Authority. The estimated amounts for the year 2001-2002 are as follows:

	Estimated Receivable Contribution in Lieu of Tax as of <u>June 30, 2002</u>	Estimated Service Expense <u>Payable</u>	Net <u>(Payable)</u>
Puerto Rico Electric Power Authority	\$ -	\$735,189	\$735,189

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Note 6 – Property, plant and equipment

A summary of the general fixed assets account group follows:

	Balance June 30, 2001	Additions	Retirements	Transfers	Balance June 30, 2002
Land	\$ 21,836,727	\$ 40,630	\$ -	\$ -	\$ 21,877,357
Building	69,725,668	-	-	2,711,455	72,437,123
Equipment	23,538,960	1,388,579	(1,972,692)	-	22,954,847
Construction in progress	5,135,084	13,893,171	-	-14,283,510	4,744,745
Improvements	17,846,308	-	-	11,572,055	29,418,363
	<u>\$ 138,082,747</u>	<u>\$ 15,322,380</u>	<u>\$ (1,972,692)</u>	<u>\$ -</u>	<u>\$ 151,432,435</u>

Property and equipment of the enterprise fund as of June 30, 2002 is summarized as follows:

Land	\$ 85,654
Buildings and improvements	14,711,708
Equipment	125,638
Less: accumulated depreciation	<u>2,932,442</u>
	11,990,558
Construction in progress	<u>4,683,017</u>
Property and equipment, net	<u>\$16,673,575</u>

Note 7 - General long-term debt

Changes in general long-term debt for the year ended June 30, 2002 are summarized as follows:

	Bonds	Federal Loan And Notes	Loans	Total
Balance at June 30, 2001	\$ 69,496,028	\$ 13,175,000	\$ 7,253,998	\$ 89,925,026
Payments	(4,032,050)	(580,000)	(56,033)	(4,668,083)
New debt issued	11,330,000	-	15,765,000	27,095,000
Balance at June 30, 2002	<u>\$ 76,793,978</u>	<u>\$ 12,595,000</u>	<u>\$ 22,962,965</u>	<u>\$ 112,351,943</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

As of June 30, 2002, debt service requirements for the above general long-term debt, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2003	\$ 5,358,033	\$ 6,409,214	\$11,767,247
2004	5,418,033	7,352,803	12,770,836
2005	5,743,033	7,005,649	12,748,682
2006	5,557,033	7,761,357	13,318,390
2007	4,364,033	5,290,243	9,654,276
Thereafter	85,911,778	46,196,596	132,108,374
	<u>\$112,351,943</u>	<u>\$80,015,862</u>	<u>\$192,367,805</u>

The legal debt margin of the Municipality is equal to 10% of the total assessment of property located within the Municipality. Total property assessments, based on information reported by the Municipal Revenue Collection Center amounted to approximately \$844,000,000.

A. Bonds

General obligation bonds payable as of June 30, 2002 are as follows:

Series	Interest Rate	Payable Through	Original Issue	Balance June 30, 2002
1986	5.00	2011	\$ 283,000	\$ 149,000
1988	5.00	2014	85,000	57,950
1990	3.26-6.31	2005	2,395,000	980,000
1991	3.26-6.41	2007	4,745,000	2,645,000
1990	5.00	2015	580,000	404,000
1985	5.00	2010	1,118,000	580,001
1983	5.00	2008	663,000	246,000
1986	8.20	2002	3,280,000	220,000
1986	8.20	2002	2,460,000	165,000
1986	6.13	2011	1,870,000	1,063,000
1987	8.20	2003	385,000	45,000
1990	6.26	2005	6,425,000	2,640,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Series	Interest Rate	Payable Through	Original Issue	Balance June 30, 2002
1993	5.00-7.71	2013	18,890,000	14,505,000
1995	4.70-8.00	2015	15,955,000	13,410,000
1994	5.63	2018	2,200,000	1,930,000
1996	4.5	2019	776,000	698,027
1998	4.88	2004	300,000	96,000
1999	8.00	2016	13,300,000	12,145,000
2000	7.29	2024	3,150,000	3,065,000
2000	7.29	2016	10,350,000	9,715,000
2000	7.29-12.0	2004	1,090,000	705,000
2002	5.00-7.5	2026	9,845,000	9,845,000
2002	5.00-8.00	2026	125,000	125,000
2002	5.00-8.00	2026	1,360,000	1,360,000
Total bonds payable				\$ 76,793,978

B. Federal loans and notes

Sec. 108 loan of \$8,000,000 payable in annual installments fluctuating from \$200,000 to \$600,000 at 7.50% interest rate until 2019 secured by building and adjacent parking facility owned by the Municipality and appraised at an aggregate fair market value of \$11,750,000 .	\$7,800,000
Sec. 108 loan \$2,240,000, interest from 3.82% to 7.08% payable in annual installments from \$60,000 to \$270,000	1,625,000
Sec. 108 loan \$4,870,000, interest from 3.82% to 6.83% payable in annual installments from \$160,000 to \$500,000	3,170,000
Total federal loans and notes	\$ 12,595,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

C. Loans

Operational loan of \$2,065,000 payable in annual installments from \$35,000 to \$165,000 with interest fluctuating from 3.65 to 6.67% until 2027	\$ 2,065,000
Operational loan of \$5,185,000 payable in annual installments from \$90,000 to \$400,000 with interest fluctuating from 3.65 to 6.67 until 2027	5,185,000
Operational loan of \$580,000 payable in annual installments of \$29,000 at 8% interest until 2007	152,250
Operational loan of \$540,000 payable in annual installments of \$27,033 at 8% interest until 2008	175,715
Operational loan of \$15,385,000 payable in annual installments from \$260,000 to \$1,185,000 with interest fluctuating from 3.65 to 6.67 until 2027	<u>15,385,000</u>
Total loans	<u>22,962,965</u>
Total general long-term debt	<u>\$112,351,943</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Long-term debt for enterprise funds at June 30, 2002 is summarized as follow:

Special bond obligation for \$500,000 to provide for financing the construction and rehabilitation of housing project for citizens of low and moderate income; annual interest rate at 2% with maturity of January 1, 2010	\$ 449,000
Special bond obligation for \$300,000 to provide for financing the reconstruction and rehabilitation of housing project for citizens of low and moderate income; annual interest rate at 2% with maturity of July 30, 2012	<u>300,000</u>
Total long-term debt	\$ 749,000
Less: current portion of long-term debt	<u>51,000</u>
Total non-current portion of long-term debt	<u>\$ 698,000</u>

The debt service requirement for the long-term debt of Enterprise funds is scheduled as follow:

Fiscal year ending June 30	Principal	Interest	Total
2003	\$ 51,000	\$ 8,798	\$ 59,798
2004	78,689	16,678	95,367
2005	82,285	12,062	94,347
2006	82,929	10,563	93,492
2007	83,571	8,991	92,562
Thereafter	370,526	17,890	388,416
	\$ 749,000	\$ 74,982	\$ 823,982

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Note 8 - Retirement System

The Municipality participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers only eligible full-time employees. The system provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

Commonwealth legislation required employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participants' gross salary. Total employee and employer contributions during the year ended June 30, 2001 amounted to approximately \$1,982,852 and \$1,494,500, respectively.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, which created the Retirement System, 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 on or after January 1, 2000 will only be allowed to become members of the System 2000. System 2000 will reduce the retirement age from 65 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 the System together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. 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 employees' salary up to a maximum of 10%) will be invested in account which either; (1) earn a fixed rate based on the two year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System 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.

For the year ended June 30, 2002, total payroll for all employees was approximately \$32,000,000. Covered payroll refers to all compensation paid by the Municipality to employees covered by the ERS on which contributions to the pension are based.

The amount 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 two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years, for those employees covered after March 31, 1990, the annuity shall be equal to one and one-half percent of the average compensation multiplied by the number of years of creditable service, in no case shall the annuity be less than \$2,400.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Note 9 - Commitments

A. Operating leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2002 amounted to approximately \$815,363.

B. General commitments

The Municipality has commitments to invest approximately \$27,000,000 to complete construction projects at several locations within the Municipality. Federal funds amounting to \$ 5,185,000 and municipal funds amounting to \$21,815,000 approximately are expected to be used to satisfy these construction and improvement commitments.

Note 10 - Contingencies

A. Litigation

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$1,408,774 in the general long-term debt account group for anticipated unfavorable judgments.

The amount presented in the general long-term debt group of account represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

B. Federal financial assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

Note 11 – Healthcare costs

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately \$6,500,000 and \$5,233,900, for the fiscal years ended June 30, 2002 and 2001, respectively.

Note 12 – GASB-34

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: government-wide financial statements and fund presentation. The government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major funds rather than fund types. Capital assets, including infrastructure assets, and depreciation charges are reported on the entity-wide perspective financial statements. The management's discussion and analysis information precedes the basis financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

GASB-34 will begin to take effect for the Municipality in fiscal year beginning after June 15, 2002.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)
JUNE 30, 2002

Note 13 - Subsequent event

During November 2002 the Municipality borrowed from the Governmental Development Bank for Puerto Rico a \$2,350,000, seven (7) years loan at a 5.5% interest rate. The loan is intended to finance the cost for the implementation of the Project Administration System (SAP by its initials in the Spanish language). The activities of the SAP include the installation of a new computerized accounting system and professional fees associated with the training of certain Municipality's employees regarding the operation of the system's modules. Implementation of SAP is expected to occur during the second half of fiscal year ended June 30, 2003.

Note 14 - Segment information

Financial segment information as of and for the year ended June 30, 2002 for the Municipality's enterprise funds is presented below:

	<u>Fine Arts Center</u>	<u>Community Development Bank</u>	<u>Consolidated Mall</u>	<u>Turabo Park</u>	<u>"Edificio Multifabril"</u>	<u>Total</u>
Operating (loss) income	\$ (186,204)	\$ 131,398	\$ 109,937	\$ (149,357)	\$ (13,716)	\$ (107,942)
Depreciation and amortization	99,004	6,412	22,541	149,357	41,533	318,847
Property and equipment, net	8,063,109	25,647	1,079,799	5,510,418	1,994,602	16,673,575
Beginning retained earnings	3,566,294	2,317,343	1,702,294	5,675,959	2,036,129	15,298,019
Ending retained earnings	3,380,091	2,448,741	1,812,231	5,526,602	2,022,412	15,190,077
Total liabilities	4,683,017	749,000	-	-	-	5,432,017
Total assets	8,063,108	3,197,708	1,812,231	5,526,602	2,022,445	20,622,094