

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

**MUNICIPIO DE CAGUAS**  
**AUDITORIA 2002-2003**  
**30 DE JUNIO DE 2003**



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## INDEPENDENT AUDITORS' REPORT

Hon. William Miranda Marín  
Major  
Municipality of Caguas

We have audited the accompanying general purpose financial statements of the governmental activities, business-type activities, major funds and the remaining fund information of the Municipality of Caguas, as of and for the fiscal year ended June 30, 2003, which collectively comprise the Municipality's financial statements. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *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 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 respective financial position of the governmental activities, the business-type activities, major funds and the remaining fund information of the Municipality of Caguas, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2004 on our consideration of the Municipality'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 our audit.

**Pannell Kerr Forster, LLP**

Hon. William Miranda Marín  
Major  
Municipality of Caguas

The Management's Discussion and Analysis, and budgetary comparison information on pages 5 through 14 and 23 are not a required part of the general purpose financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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

January 16, 2004

**Pannell Kerr Forster, LLP**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Autonomous Municipality of Caguas (herein after the Municipality) provides this Management Discussion and Analysis, a new format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). This narrative overview and analysis of the Municipality's financial activities is for the fiscal year ended June 30, 2003. Please consider this information in conjunction with the accompanying Transmittal Letter and General Purpose Financial Statements.

### FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Municipality's net assets exceeded the amount of liabilities by \$127 millions.
- The result of Activities produced an increase in net assets by \$15 millions.
- The cost of all City programs was \$121.7 millions.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, an increase of \$2.7 millions in fund balance or 20% and an increase in unreserved fund balance of \$6.4 millions that includes a restated amount or 149% from year 2002.
- Fiscal year 2003 revenues from General Fund showed a favorable variance of \$2.3 millions or 3.2% of increase from 2002. Expenditures on the other hand showed an unfavorable variance \$5.0 millions or 7.4% from 2002.
- The summaries of these events are mentioned in the following paragraph and explained under the General Fund Budgetary Highlights Section.

### FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements include three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statement) in addition to the basic financial statements themselves. These components are described below:

#### General Purpose Financial Statements

The Government-Wide Financial Statements present the financial picture of the Municipality from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Municipality (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have been made in regards to interfund activity, payables and receivables.

The Fund Financial Statements include statements for two categories of activities-governmental and enterprise. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The enterprise activities are the same as business-type activities we report in the government-wide statements but provide more detail and additional information such as cash flows, for proprietary funds. Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

#### Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include all assets and liabilities of the Municipality using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the Municipality's property tax base and the condition of the Municipality's roads.

Governmental activities report all of the Municipality's basic service activities that include general government services, law enforcement, public works and parks, recreation services, and community development services, social services including health costs contributions to the State health reform. Property, volume of business tax, construction permits tax, contribution in lieu of taxes, fines and penalties and other licenses fees, state and federal grants, and interest income finance these activities.

#### Fund Financial Statements

The Fund financial statements provide detailed information about the major funds-not the Municipality as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental Funds - Consist of the Municipality's basic services, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation schedule following each governmental fund financial statement.

Proprietary Funds – When the Municipality's charge customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

#### Notes to financial statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes can be found immediately following the fund financial statements.

#### Supplementary Information

Required supplementary information follows the basic financial statements and includes budgetary comparison schedules that include a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and the Municipality's major special revenue funds as presented in the governmental fund financial statements.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As mentioned earlier, the Municipality has prepared the fiscal year ended June 30, 2003 financials in a new format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34) for the first time. However, no application of the new format is made for fiscal year 2002 for comparative purposes, for this government-wide financial statements.

#### Net Assets

The Municipality's Net Assets for 2003 is as follows:

Current Assets	\$119,679,247
Noncurrent assets:	
Capital Assets	132,678,324
Loan receivable	<u>2,424,441</u>
Total Assets	<u>254,782,012</u>
Current Liabilities	19,714,266
Long-term Debt	<u>107,941,827</u>
Total Liabilities	<u>127,656,093</u>
Net Assets	
Invested in Capital Assets, net of debt	33,266,351
Restricted	78,907,104
Unrestricted	<u>14,952,464</u>
Total Net Assets	<u>\$127,125,919</u>

The Municipality's net assets total \$127.1 millions at the end of 2003. The second largest portion of the Municipality's net assets, \$33.3 millions or 26.1%, reflects its investments in capital assets such as land, buildings, equipment and infrastructure (roads, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The assets are used to provide services to residents; consequentially, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The largest portion of the Municipality's restricted net assets, \$78.9 millions or 62%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$14.9 million or 11.9%, may be used to meet the Municipality's ongoing obligations to residents and creditors. Internally imposed designations of resources are not presented as restricted net assets.

### Changes in Net Assets

The Municipality's Change in Net Assets for fiscal years ended June 30, 2003 is as follows:

#### Changes in Net Assets

##### Program Revenues:

Charges for services	\$ 981,242
Operating grants and contributions	<u>25,240,904</u>
Capital grants and contributions	<u>15,816,705</u>
Total Program Revenues	<u>42,038,851</u>

##### General Revenues:

Property taxes	43,616,537
Volume of business taxes	30,972,297
Fines and penalties	25,038
Intergovernmental	9,934,152
Investment and bank interest earnings	1,596,701
License and permits	6,930,134
Solid Waste Disposal	97,096
Parking Lot Fees	271,033
Rent	1,072,921
Miscellaneous	237,009
Total General Revenues	<u>94,752,918</u>
Total Revenues	<u>136,791,769</u>

##### Expenses:

General government	46,111,744
Public safety	6,564,476
Public works	21,831,843
Culture and recreation	7,298,831
Health and Welfare	18,745,316
Economic development	1,044,713
Education	11,592,452
Interest on long-term debt	6,794,412
Business type activities	<u>1,722,324</u>
Total expenses	<u>121,706,111</u>

Increase (decrease) in net assets

\$ 15,085,658

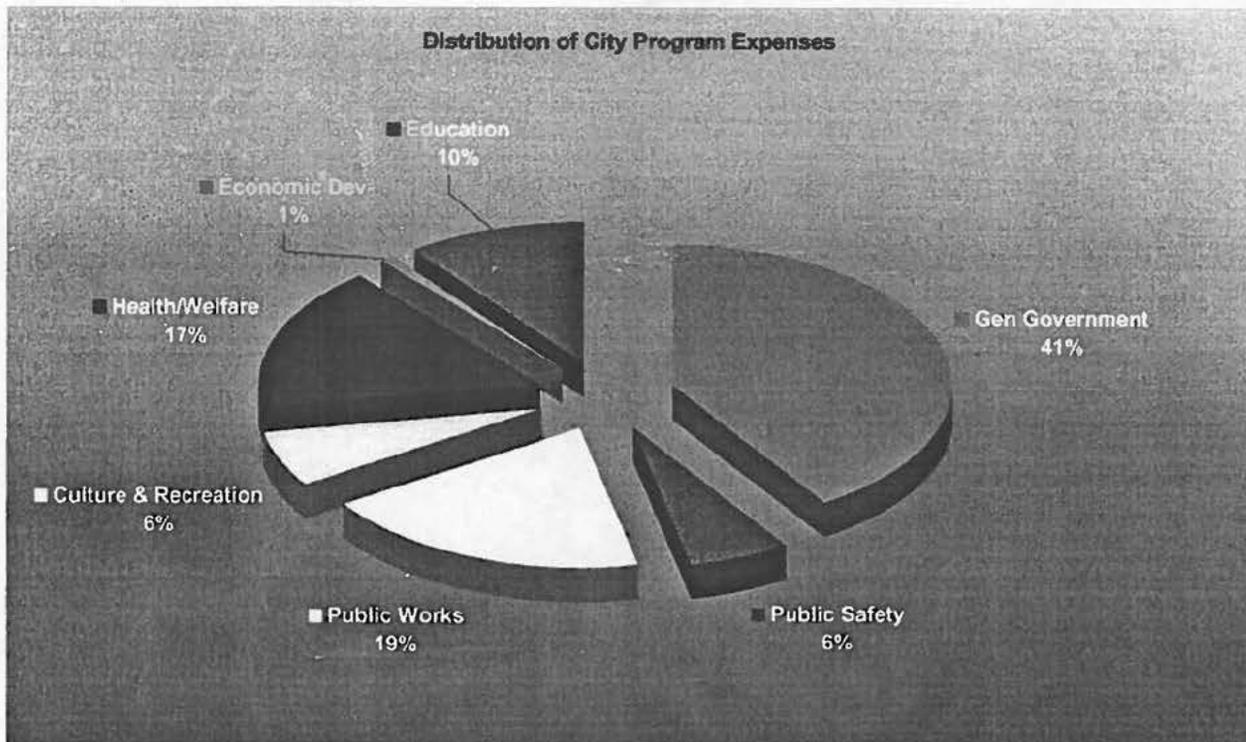
As mentioned earlier, the Municipality's net assets increased by \$15 millions. Most of the Municipality's general service programs are supported by General Revenues that represent \$94.8 millions or 69% of total Municipality-wide revenues. The increase of property taxes of approximately \$300 thousand primarily reflects a .6% growth in assessed valuations from 2003 to 2002, and property tax proceeds as well as the tax for increase in volume of business tax ("patentes"). Additional changes include:

- Capital and operating grants increased in 2003 by approximately \$1.9 millions from prior year considering an income restatement to the beginning fund balance of \$13 millions on the application of GASB statement 33. These revenues supports the funding of the Municipality's capital improvement projects;
- Decline in interest earnings and money invested by \$41,761;
- Charges for service revenues represent .8% of total revenues and are used to support programs recreation and community services, and economic development services.

The total cost of all Municipality programs totals \$121.7 millions and is an increase of \$7.4 million or 6.4%. Changes to Municipality program expenses reflect the following major highlights:

- \$12.9 millions increase in general services;
- \$2.1 millions decrease for public works services;
- \$845 thousand increase for culture and recreation;
- \$3 millions increase in health and welfare;
- \$2.5 millions increase in debt service interest reflects the final payment of the Municipality's General Obligation Bond, which is supported by the increase in Legislature approved property tax revenues;
- \$8.9 millions recognized as an expense for depreciation.

The following chart represents the distribution of all Municipality programs expenses:



### THE MUNICIPALITY'S FUNDS

The Municipality's General Fund reported an increase in unreserved fund balance of \$6.4 millions due primarily to a change in accounting principle applied to recognize the municipal license tax receivable of \$10.7 millions and a reduction of \$4.3 millions in cash and investments. Although expenditures result in an increase of \$5.0 millions of governmental fund, including capital outlays, amounts spent for these capital projects are reported as capital assets in the government-wide Statement of Net Assets. That amount was absorbed with \$2 millions of additional revenues and a transfer of \$6 millions from the debt service fund. The operating results and changes in fund balances of all of the Municipality's other funds were consistent with those discussed earlier for the Municipality's governmental activities.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Changes from the Municipality's original budget to the final budget are detailed in the Required Supplementary Information Section along with a comparison to actual activity for the year ended June 30, 2003. Highlights of significant changes from the Municipality's original budget to the final budget include:

#### Revenues

Over the course of the year, the Municipal Legislature revised the budget several times. These budget amendments fall basically in two categories. The first category includes cash surplus from prior year. The second category includes collections of property tax contributions in excess of contribution advances by the Municipal Revenue Collection Center from prior and current year.

- Cash surplus \$4,325,120 from year ended June 30, 2002.

- Property tax collections in excess of the contributions advanced from the Municipal Revenue Collection Center for amount of \$1,149,050.

#### Expenses and Transfers

During the Municipality's fiscal year, amendments to the original budget were revised to primarily reflect:

- Appropriations for General Government: \$1,248,550, Public Works: \$1,837,400 Community Social Services: \$1,199,000, Environmental Services: \$402,400, and Economic Development: \$450,000 for a total of \$5,137,350.
- \$6.1 million operating transfers from surplus in the debt redemption fund to supplement the Municipality's 4-year Capital Improvement Program for projects relating to infrastructure, community services, facilities, and parks and trails.

#### CAPITAL ASSETS

As of June 30, 2003, the Municipality had \$195.7 millions invested in a variety of capital assets, as reflected in the following schedule. This amount represents an increase of \$20.8 millions or 11.8% above the prior year amount after considering the retroactive adjustment of infrastructure assets on the application of the GASB statement 34.

#### Capital Assets at Year-End (at cost)

	<u>Primary Government Activities</u>
Land	\$ 25,482,203
Buildings and Structures	13,090,673
Machinery and Equipment	24,930,804
Facilities	84,688,393
Infrastructure	37,569,619
Works of art and historical treasures	2,253,811
Construction in Progress	<u>7,701,347</u>
Totals	<u>\$195,716,850</u>

The following reconciliation summarizes the change in Capital Assets, which primarily reflects the addition of Construction in Progress for various public works and the beginning phases for various Public Works Capital Improvement Projects (CIP's) as part of the Municipality's new multiple-year 4-year CIP budget program and the inclusion of depreciation.

Changes in Capital Assets

	Audited 6/30/02	Prior Period	Reclass	Restated 6/30/02	Additions	Audited 6/30/03
Building	\$ 72.4	\$ -	\$ (62.0)	\$ 10.4	\$ 2.6	\$ 13.0
Facilities	-	18.7	62.0	80.7	4.0	84.7
Construction in progress	4.7	-	-	4.7	3.0	7.7
Machinery and equipment	23.0	-	-	23.0	2.0	25.0
Improvements	29.4	-	(29.4)	-	-	-
Works of arts	-	-	2.2	2.2	0.1	2.3
Infrastructure	-	4.8	27.2	32.0	5.5	37.5
Land	21.9	-	-	21.9	3.6	25.5
	<u>\$ 151.4</u>	<u>\$ 23.5</u>	<u>\$ -</u>	<u>\$ 174.9</u>	<u>20.8</u>	<u>195.7</u>
Accumulated depreciation						(81.1)
Ending balance						<u>\$ 114.6</u>

This year major additions to Capital Assets included:

• Land acquired and land improvements, primarily for:

- Barriada Morales	\$1,926,105
- El Troche Community Housing Development	915,500
- Padilla El Caribe and Dr. Rufo Streets	<u>387,446</u>
	<u>3,229,051</u>

• Facilities and facilities improvements, primarily for:

- Electronic library	83,126
- Home for the Elderly at Tomás de Castro	108,782
- Cemetery III	90,000
- Initial construction phases of Honor al Río development	1,029,484
- Recreation facilities to El Verde Urban Development	103,263
- Ecological studies to river watershed Aguas Buenas – Caguas	75,000
- Rafael Cordero street improvements	96,024
- Elimination of architectural barriers	210,923
- Betterments to the Fine Arts Center	124,071
- Initial construction phases of Jardín Botánico development	54,446
- Recreational facilities at Quebrada Arena, Río Cañas	108,828
- Elderly Home at Santo Domingo sector	273,782
- Myrlena urban development recreational facilities	104,073
- Fence improvements at Julio Monagas recreation facility	125,021
- Borinquen Atravesada recreational facilities	<u>101,889</u>
	<u>2,969,355</u>

• Building and building improvements and rehabilitations, primarily for:	
- Improvements to the City Hall	214,675
- Trovador Museum	42,900
- Construction of Caguas Museum	100,000
- Build and equip rental facilities at Center of Fines Arts	2,191,376
	<u>2,548,951</u>
• Infrastructure and improvements, primarily for:	
- Improvements to Cristóbal Colón Street	302,465
- Improvements to Gautier Benítez Avenue	211,995
- Improvements to Rafael Cordero Avenue	40,878
- Cathedral of Caguas Main Stairs	279,417
- Improvements at Muñoz Marín Avenue to Turey Avenue	1,583,786
- City roads betterments	848,009
- Initial phases, Honor al Río development	234,860
- Improvements at Muñoz Marín Avenue to P.R. NAS	124,000
- Improvements to Garrido Avenue Sewer System	271,587
- Improvements at Munoz Marín Avenue to Degetau Avenue	487,229
- Barriada Morales Community restoration	1,007,343
- Improvements to Georgetti Avenue	260,892
- Initial phases Las Carolinas Community Entrance Bridge	256,341
- Urban Center rehabilitation	165,858
	<u>6,074,660</u>
Total major Capital Assets Additions	<u>\$ 14,822,017</u>

**DEBT ADMINISTRATION****Outstanding Debt, at June 30, 2003****Governmental Activities**

Bonds	\$ 68,676,030
Federal loans and notes	11,985,000
Special loans	<u>19,527,924</u>

**\$100,188,954****Business type activities**

Special bonds	<u>\$ 5,815,750</u>
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Total bonds, loans and special loans and bonds	<u>\$106,004,704</u>
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The current portion of long-term debt for 2003 is classified as current liabilities in the Municipality's Statement of Net Assets.

In 2002, the Mayor and Municipal Legislature approved an increase in the property tax rate to pay for the debt service payments for capital improvements.

Further information on the Municipality's outstanding debt can be found in the notes to the general purpose financial statements.

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES

Property tax revenue continued to increase along with assessed valuations that have increased by 7.8% during FY 2003. However, property tax revenues considered with the effect of the municipal lottery and subsidy increased only by .6%.

Although low interest rates have spurred homeowners to refinancing, housing developments and local demand, benefited with limitation on developments and higher cost of land at the San Juan metropolitan area had helped sales of new developments in the City at a moderate growing rate as well as the property tax valuations.

## REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of Caguas residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726.

**MUNICIPALITY OF CAGUAS**  
**Statement of Net Assets**  
**June 30, 2003**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 66,832,588	\$ 3,096,102	\$ 69,928,690
Cash with fiscal agent	15,373,265	-	15,373,265
Volume of business tax receivable	10,748,194	-	10,748,194
Federal grants receivable	22,480,018	-	22,480,018
Internal balances	300,000	-	300,000
Rent receivable	776,254	72,826	849,080
<b>Total current assets</b>	<u>116,510,319</u>	<u>3,168,928</u>	<u>119,679,247</u>
<b>Noncurrent assets:</b>			
Capital assets, net	114,591,558	18,086,766	132,678,324
Loan receivable, net	-	2,424,441	2,424,441
<b>Total noncurrent assets</b>	<u>114,591,558</u>	<u>20,511,207</u>	<u>135,102,765</u>
<b>Total assets</b>	<u>231,101,877</u>	<u>23,680,135</u>	<u>254,782,012</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Bonds and notes payable, current	5,918,033	176,973	6,095,006
Accounts payable and accrued liabilities	9,514,665	80,127	9,594,792
Accrued compensated absences, current	20,870	-	20,870
Internal balances	-	300,000	300,000
Due to other governments	2,536,091	-	2,536,091
Advance deposits	1,161,352	6,155	1,167,507
<b>Total current liabilities</b>	<u>19,151,011</u>	<u>563,255</u>	<u>19,714,266</u>
<b>Noncurrent liabilities:</b>			
Bonds and notes payable, noncurrent	94,270,921	5,638,777	99,909,698
Accrued compensated absences	8,032,129	-	8,032,129
<b>Total noncurrent liabilities</b>	<u>102,303,050</u>	<u>5,638,777</u>	<u>107,941,827</u>
<b>Total liabilities</b>	<u>121,454,061</u>	<u>6,202,032</u>	<u>127,656,093</u>

## MUNICIPALITY OF CAGUAS

## Statement of Net Assets (continued)

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Net assets:			
Invested in capital assets, net of related debt	\$ 20,320,637	\$ 12,945,714	\$ 33,266,351
Restricted for:			
Housing and rental programs	4,784,642	-	4,784,642
Youth and children programs	4,780,004	-	4,780,004
Capital projects	32,560,819	-	32,560,819
Debt service	16,213,039	-	16,213,039
Other special purposes	20,568,600	-	20,568,600
Unrestricted	<u>10,420,075</u>	<u>4,532,389</u>	<u>14,952,464</u>
Total net assets	<u>109,647,816</u>	<u>17,478,103</u>	<u>127,125,919</u>
Total liabilities and net assets	<u>\$ 231,101,877</u>	<u>\$ 23,680,135</u>	<u>\$ 254,782,012</u>
Fund balance per Fund Statements		\$ 94,892,502	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and not reported in the funds.		114,591,558	
Other long term liabilities, such as accrued compensated absences, litigations and other contingencies are not available to pay for current year expenditures and therefore not reported in the funds		(8,252,999)	
Volume of business tax resources not available to pay current year expenditures, but collectible after the period of availability, are not reported in the funds.		8,605,709	
General obligation bonds, special and federal loans are not due and payable in the current period and therefore not reported in the funds.		<u>(100,188,954)</u>	
Net assets of governmental activities		<u>\$ 109,647,816</u>	

See notes to general purpose financial statements

## MUNICIPALITY OF CAGUAS

Statement of Activities  
For the Year Ended June 30, 2003Functions and Programs

	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
<b>Governmental activities:</b>							
General government	\$ 46,111,744	\$ -	\$ -	\$ -	\$ (46,111,744)	\$ -	\$ (46,111,744)
Public safety	6,564,476	-	-	-	(6,564,476)	-	(6,564,476)
Public works	21,831,843	-	-	3,950,829	(17,881,014)	-	(17,881,014)
Culture and recreation	7,298,831	-	-	-	(7,298,831)	-	(7,298,831)
Health and Welfare	18,745,316	-	11,391,954	11,865,876	4,512,514	-	4,512,514
Economic development	1,044,713	-	-	-	(1,044,713)	-	(1,044,713)
Education	11,592,452	-	13,848,950	-	2,256,498	-	2,256,498
Debt service payments	6,794,412	-	-	-	(6,794,412)	-	(6,794,412)
<b>Total governmental activities</b>	<b>119,983,787</b>	<b>-</b>	<b>25,240,904</b>	<b>15,816,705</b>	<b>(78,926,178)</b>	<b>-</b>	<b>(78,926,178)</b>
<b>Business-type activities:</b>							
Fine Arts Center	988,787	314,504	-	-	-	(674,283)	(674,283)
Community Development Bank	173,979	146,194	-	-	-	(27,785)	(27,785)
Multitenant	410,201	518,044	-	-	-	107,843	107,843
Turabo Recreational Park	149,357	2,500	-	-	-	(146,857)	(146,857)
	<u>1,722,324</u>	<u>981,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(741,082)</u>	<u>(741,082)</u>
<b>General revenues:</b>							
Property taxes					43,616,537	-	43,616,537
Volume of business tax					30,972,297	-	30,972,297
License and permits					6,930,134	-	6,930,134
Fines and penalties					25,038	-	25,038
Interest and investment income					1,546,063	50,638	1,596,701
Intergovernmental					9,934,152	-	9,934,152
Solid waste disposal					97,096	-	97,096
Parking lot fees					271,033	-	271,033
Rent					1,072,921	-	1,072,921
Miscellaneous					237,009	-	237,009
Operating transfers					(410,000)	410,000	-
<b>Total general revenues</b>					<b>94,292,280</b>	<b>460,638</b>	<b>94,752,918</b>
<b>Change in net assets</b>					<b>15,366,102</b>	<b>(280,444)</b>	<b>15,085,658</b>
<b>Net assets - beginning</b>					<b>94,281,714</b>	<b>17,758,547</b>	<b>112,040,261</b>
<b>Net assets - ending</b>					<b>\$ 109,647,816</b>	<b>\$ 17,478,103</b>	<b>\$ 127,125,919</b>

See notes to general purpose financial statements

**MUNICIPALITY OF CAGUAS**  
**Governmental Fund Financial Statements**  
**Combined Balance Sheet**

June 30, 2003

	<u>General</u>	<u>Housing Rental Programs</u>	<u>Head Start Youth and Children Program</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Other Special Revenue Funds</u>	<u>Totals Governmental Funds</u>
<b><u>Assets</u></b>							
Cash and investments	\$ 10,377,877	\$ 1,315,170	\$ 35	\$ 24,569,212	\$ -	\$ 30,570,294	\$ 66,832,588
Cash with fiscal agent	-	-	-	-	15,373,265	-	15,373,265
Municipal license taxes receivable	10,748,194	-	-	-	-	-	10,748,194
Intergovernmental receivables	-	-	-	-	-	-	-
Federal grants receivable	-	4,131,122	4,704,693	-	-	13,644,203	22,480,018
Due from other funds	9,221,100	-	259,538	-	849,145	-	10,329,783
Rent and other receivables	679,921	13,981	-	-	-	82,352	776,254
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b><u>\$ 31,027,092</u></b>	<b><u>\$ 5,460,273</u></b>	<b><u>\$ 4,964,266</u></b>	<b><u>\$ 24,569,212</u></b>	<b><u>\$ 16,222,410</u></b>	<b><u>\$ 44,296,849</u></b>	<b><u>\$ 126,540,102</u></b>

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS  
Governmental Fund Financial Statements  
Combined Balance Sheet

June 30, 2003

	General	Housing Rental Programs	Head Start Youth and Children Program	Capital Projects	Debt Service	Other Special Revenue Funds	Total Governmental Funds
<u>Liabilities and other credits</u>							
Accounts payable and accrued liabilities	\$ 1,918,134	\$ 188,207	\$ 184,262	\$ 4,323,980	\$ -	\$ 2,700,082	\$ 9,314,665
Due to other governments (note 5)	2,536,091	-	-	-	-	-	2,536,091
Due to other funds (note 4)	820,408	487,424	-	1,196,827	9,371	7,515,753	10,029,783
Deferred volume of business taxes (note 2)	8,605,709	-	-	-	-	-	8,605,709
Due to Federal Agency	-	-	-	-	-	-	-
Deferred federal grant revenues	-	-	-	-	-	-	-
Advanced deposits	1,161,352	-	-	-	-	-	1,161,352
	-	-	-	-	-	-	-
<b>Total liabilities and other credits</b>	<u>15,041,694</u>	<u>675,631</u>	<u>184,262</u>	<u>5,520,807</u>	<u>9,371</u>	<u>10,215,835</u>	<u>31,647,600</u>
<u>Fund Equity</u>							
Fund balances							-
Reserved for encumbrances	5,226,372	-	-	-	-	-	5,226,372
Reserved for housing rental projects	-	60,416	-	-	-	-	60,416
Reserved for youth and children program	-	-	1,781,530	-	-	-	1,781,530
Reserved for special projects	-	-	-	-	-	5,493,715	5,493,715
Reserved for debt service	-	-	-	-	16,213,039	-	16,213,039
Reserved for capital projects	-	-	-	10,658,766	-	-	10,658,766
Unreserved	10,759,026	4,724,226	2,998,474	8,389,639	-	28,587,299	55,458,664
<b>Total fund equity</b>	<u>15,985,398</u>	<u>4,784,642</u>	<u>4,780,004</u>	<u>19,048,405</u>	<u>16,213,039</u>	<u>34,081,014</u>	<u>94,892,502</u>
<u>Commitments and contingencies</u>							
<b>Total liabilities and fund equity</b>	<u>\$ 31,027,092</u>	<u>\$ 5,460,273</u>	<u>\$ 4,964,266</u>	<u>\$ 24,569,212</u>	<u>\$ 16,222,410</u>	<u>\$ 44,296,849</u>	<u>\$ 126,540,102</u>

See notes to general purpose financial statements

MUNICIPALITY OF CAGUAS  
Governmental Fund Financial Statements

Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2003

	General	Housing Rental Programs	Head Start Youth and Children Program	Capital Projects	Debt Service	Other Special Revenue Funds	Total Governmental Funds
Fund balances at beginning of year (as previously reported)	\$ 5,852,828	\$ 4,980,241	\$ 704,730	\$ 28,701,283	\$ 11,169,955	\$ 22,529,041	\$ 73,938,078
Prior period adjustments	7,415,995	-	-	-	8,152,216	13,512,414	29,080,625
Fund balance at beginning of year (as restated)	13,268,823	4,980,241	704,730	28,701,283	19,322,171	36,041,455	103,018,703
<b>Revenues</b>							
Property taxes	31,046,500	-	-	-	12,570,037	-	43,616,537
Volume of business taxes	22,366,588	-	-	-	-	-	22,366,588
Licenses and permits	6,495,434	-	-	-	-	434,700	6,930,134
Federal grants	-	5,695,154	13,848,950	-	-	11,865,876	31,409,980
Fines and penalties	25,038	-	-	-	-	-	25,038
Interest and investment income	1,197,970	731	98	296,346	-	50,918	1,546,063
Intergovernmental	9,934,152	-	-	3,950,829	-	5,696,800	19,581,781
Solid waste disposal	97,096	-	-	-	-	-	97,096
Parking lot fees	271,033	-	-	-	-	-	271,033
Rent	726,664	-	-	-	-	346,257	1,072,921
Miscellaneous	237,009	-	-	-	-	-	237,009
Total revenues	72,397,484	5,695,885	13,849,048	4,247,175	12,570,037	18,394,551	127,154,180
<b>Expenditures (notes 1, 2, 7, 8, and 9)</b>							
<b>Current:</b>							
General government	38,233,669	-	-	-	-	6,503,871	44,737,540
Public safety	5,642,260	-	-	-	-	750,844	6,393,104
Public works	13,679,191	-	-	3,742,472	-	708,655	18,130,318
Culture and recreation	5,445,546	-	-	-	-	881,251	6,326,797
Health and Welfare	4,241,161	5,884,641	-	-	-	6,209,436	16,335,238
Economic development	647,062	-	-	-	-	188,175	835,237
Education	1,562,585	-	9,411,651	-	-	317,772	11,292,008
Capital outlays	2,705,725	6,843	362,123	12,368,263	-	5,504,740	20,947,694
Debt service payments	-	-	-	-	12,222,445	-	12,222,445
Total expenditures	72,157,199	5,891,484	9,773,774	16,110,735	12,222,445	21,064,744	137,220,381

**MUNICIPALITY OF CAGUAS**  
**Governmental Fund Financial Statements**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2003**

	General	Housing Rental Programs	Head Start Youth and Children Program	Capital Projects	Debt Service	Other Special Revenue Funds	Total Governmental Funds
Other financing sources (uses) (Notes 1,2,5 and 7)							
Proceeds from loan issuance		-	-	-	-	2,350,000	2,350,000
Operating transfer in	6,168,092	-	-	2,250,682	2,711,368	1,042,858	12,173,000
Operating transfer out	(3,691,802)	-	-	(40,000)	(6,168,092)	(2,683,106)	(12,583,000)
Other financing sources (uses)	2,476,290	-	-	2,210,682	(3,456,724)	709,752	1,940,000
Fund balances at end of year	\$ 15,985,398	\$ 4,784,642	\$ 4,780,004	\$ 19,048,405	\$ 16,213,039	\$ 34,081,014	\$ 94,892,502

See notes to general purpose financial statements

## MUNICIPALITY OF CAGUAS

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2003

Net change in fund balance - total governmental funds	\$ (8,126,201)
 Amounts reported in the statement of activities are different because:	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
	12,029,431
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
	8,605,709
 General long term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets. This is the amount by which repayments exceeded the proceeds.	
	3,078,033
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	
	<u>(220,870)</u>
 Change in net assets of governmental activities	 <u>\$ 15,366,102</u>

## MUNICIPALITY OF CAGUAS

Statement of Revenues and Expenditures  
 Budget and Actual- General Fund  
 Non GAAP Budgetary Basis  
 Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual amounts in the budgetary basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Resources:</b>				
Property taxes	\$ 28,974,864	\$ 29,517,363	\$ 31,046,500	\$ 1,529,137
Volume of business taxes	20,775,000	20,775,000	22,366,588	1,591,588
Licenses and permits	4,226,000	4,226,000	6,495,434	2,269,434
Fines and penalties	380,000	380,000	25,038	(354,962)
Interest and investment income	1,750,000	1,750,000	1,197,970	(552,030)
Intergovernmental	8,059,774	8,059,774	9,934,152	1,874,378
Solid waste disposal	124,890	124,890	97,096	(27,794)
Parking lot fees	283,100	283,100	271,033	(12,067)
Rent	396,744	396,744	726,664	329,920
City Council Resolutions and other revenues	11,777,180	16,372,031	5,374,359	(10,997,672)
Transfer-in	-	-	6,168,092	6,168,092
Amounts available for appropriation	<u>\$ 76,747,552</u>	<u>\$ 81,884,902</u>	<u>\$ 83,702,926</u>	<u>\$ 1,818,024</u>
<b>Expenditures charged to appropriations</b>				
Capital outlays	509,980	1,258,723	1,220,737	37,986
Culture and recreation	5,633,265	6,099,677	5,453,908	645,769
Economic development	824,271	787,335	719,430	67,905
Education	1,676,948	1,637,848	1,613,135	24,713
General government	39,062,280	43,608,801	43,366,055	242,746
Health and welfare	5,179,162	4,643,183	4,519,583	123,600
Public safety	6,361,472	5,828,153	5,720,052	108,101
Public works	14,658,174	15,991,988	14,972,930	1,019,058
Transfer out	2,842,000	2,029,194	1,439,724	589,470
Total charges to appropriations	<u>\$ 76,747,552</u>	<u>\$ 81,884,902</u>	<u>\$ 79,025,554</u>	<u>\$ 2,859,348</u>
Excess of resources over appropriations			<u>\$ 4,677,372</u>	<u>\$ 4,677,372</u>

## MUNICIPALITY OF CAGUAS

Statement of Net Assets  
Proprietary Funds

June 30,2003

	Fine Arts Center	Community Development Bank	Multitenant Funds	Turabo Recreation Park	Totals Proprietary Funds
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 742,802	\$ 995,924	\$ 1,338,692	\$ 18,684	\$ 3,096,102
Receivables (net)	-	-	72,826	-	72,826
Total current assets	<u>742,802</u>	<u>995,924</u>	<u>1,411,518</u>	<u>18,684</u>	<u>3,168,928</u>
<b>Noncurrent Assets:</b>					
Loans receivable (net)	-	2,424,441	-	-	2,424,441
<b>Capital assets:</b>					
Land	-	-	85,653	-	85,653
Building and improvements	4,038,346	-	3,256,493	7,445,823	14,740,662
Equipment	191,100	33,303	-	2,394	226,797
Less: Accumulated depreciation	(848,442)	(15,834)	(221,694)	(2,084,763)	(3,170,733)
Construction in progress	6,204,387	-	-	-	6,204,387
Capital assets (net)	<u>9,585,391</u>	<u>17,469</u>	<u>3,120,452</u>	<u>5,363,454</u>	<u>18,086,766</u>
Total non-current assets	<u>9,585,391</u>	<u>2,441,910</u>	<u>3,120,452</u>	<u>5,363,454</u>	<u>20,511,207</u>
Total assets	<u>\$ 10,328,193</u>	<u>\$ 3,437,834</u>	<u>\$ 4,531,970</u>	<u>\$ 5,382,138</u>	<u>\$ 23,680,135</u>

MUNICIPALITY OF CAGUAS  
Statement of Net Assets  
Proprietary Funds

June 30, 2003

	Fine Arts Center	Community Development Bank	Multitenant Funds	Turabo Recreation Park	Total Proprietary Funds
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Notes payable (current portion)	\$ 95,000	\$ 81,973	\$ -	\$ -	\$ 176,973
Due to other fund	-	300,000			300,000
Advance deposits			6,155		6,155
Accounts payable and accrued liabilities	80,127	-	-	-	80,127
<b>Total current liabilities</b>	<b>175,127</b>	<b>381,973</b>	<b>6,155</b>	<b>-</b>	<b>563,255</b>
<b>Non-current liabilities:</b>					
Notes payable (non-current portion)	5,000,000	638,777	-	-	5,638,777
	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>5,000,000</b>	<b>638,777</b>	<b>-</b>	<b>-</b>	<b>5,638,777</b>
<b>Total liabilities</b>	<b>5,175,127</b>	<b>1,020,750</b>	<b>6,155</b>	<b>-</b>	<b>6,202,032</b>
<b>Net assets</b>					
Invested in capital assets (net of related debt)	4,490,391	17,469	3,074,400	5,363,454	12,945,714
Unrestricted	662,675	2,399,615	1,451,415	18,684	4,532,389
<b>Total net assets</b>	<b>5,153,066</b>	<b>2,417,084</b>	<b>4,525,815</b>	<b>5,382,138</b>	<b>17,478,103</b>
<b>Commitments and contingencies</b>					
<b>Total liabilities and net assets</b>	<b>\$ 10,328,193</b>	<b>\$ 3,437,834</b>	<b>\$ 4,531,970</b>	<b>\$ 5,382,138</b>	<b>\$ 23,680,135</b>

See notes to general purposes statements

MUNICIPALITY OF CAGUAS  
Statement of revenues, expenses and changes in net assets  
Proprietary Funds

June 30, 2003

	Fine Arts Center	Community Development Bank	Multitenant Funds	Turabo Recreation Park	Total Proprietary Funds
<b>Operating Revenues:</b>					
Charges for services and rents	\$ 310,451	\$ 25,960	\$ 518,044	2,500	\$ 856,955
Interest on loans	-	120,234	-	-	120,234
Other	4,053	-	-	-	4,053
	-	-	-	-	-
<b>Total operating revenue</b>	<b>314,504</b>	<b>146,194</b>	<b>518,044</b>	<b>2,500</b>	<b>981,242</b>
<b>Operating Expenses:</b>					
Payroll	457,380	59,831	-	-	517,211
Depreciation	99,003	9,422	64,074	149,357	321,856
Professional fees	63,338	52,000	33,443	-	148,781
Other non-contractual services	13,203	-	-	-	13,203
Advertising	2,445	1,288	-	-	3,733
Disposition of solid waste	6,629	-	-	-	6,629
Bank service charges	-	3,087	-	-	3,087
Organization of special activities	2,146	-	-	-	2,146
Dues and memberships	-	919	-	-	919
Other miscellaneous	300	2,449	-	-	2,749
Repairs and maintenance	19,587	-	251,710	-	271,297
Office supplies	4,756	1,955	-	-	6,711
Postage	-	300	-	-	300
Rent	-	21,180	-	-	21,180
Utilities	-	6,000	60,974	-	66,974
Travel	-	495	-	-	495
<b>Total operating expenses</b>	<b>668,787</b>	<b>158,926</b>	<b>410,201</b>	<b>149,357</b>	<b>1,387,271</b>
<b>Operating income (loss)</b>	<b>(354,283)</b>	<b>(12,732)</b>	<b>107,843</b>	<b>(146,857)</b>	<b>(406,029)</b>
<b>Non-operating revenues (expenses)</b>					
Interest income	39,498	3,087	8,053	-	50,638
Interest expense	(320,000)	(15,053)	-	-	(335,053)
Operating transfer in	410,000	-	-	-	410,000
<b>Total non-operating revenues (expenses)</b>	<b>129,498</b>	<b>(11,966)</b>	<b>8,053</b>	<b>-</b>	<b>125,585</b>
<b>Change in net assets</b>	<b>(224,785)</b>	<b>(24,698)</b>	<b>115,896</b>	<b>(146,857)</b>	<b>(280,444)</b>
<b>Net assets at beginning of year</b>	<b>5,377,851</b>	<b>2,441,782</b>	<b>4,409,919</b>	<b>5,528,995</b>	<b>17,758,547</b>
<b>Net assets at end of year</b>	<b>\$ 5,153,066</b>	<b>\$ 2,417,084</b>	<b>\$ 4,525,815</b>	<b>\$ 5,382,138</b>	<b>\$ 17,478,103</b>

See notes to general purposes financial statements

## MUNICIPALITY OF CAGUAS

Statements of cash flows - Proprietary Funds  
Proprietary Funds

June 30,2003

	Fine Arts Center	Community Development Bank	Multitenant Funds	Turabo Recreation Park	Total Proprietary Funds
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ 310,451	\$ 146,194	\$ 518,044	\$ 2,500	\$ 977,189
Principal collections of loans	-	360,398	-	-	360,398
Rent collected in advance			6,155	-	6,155
Payments to suppliers	(28,223)	89,673	(346,127)	-	(284,677)
Loans disbursed	-	(1,031,740)	-	-	(1,031,740)
Payments to employees	(457,380)	59,831	-	-	(397,549)
<b>Net cash provided by (used in) operating activities</b>	<b>(175,152)</b>	<b>(375,644)</b>	<b>178,072</b>	<b>2,500</b>	<b>(370,224)</b>
<b>Cash flows from capital and related financing activities:</b>					
Capital assets investments	(1,621,286)	1,244	(27,039)	-	(90,000)
Principal paid on capital debt	(90,000)	-	-	-	(320,000)
Interest paid on capital debt	(320,000)	-	-	-	410,000
Transfer from governmental fund	410,000	-	-	-	(1,647,081)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(1,621,286)</b>	<b>1,244</b>	<b>(27,039)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from non-capital financing activities:</b>					
Principal payments on note payable	-	(28,250)	-	-	(28,250)
Interest expense	-	(9,053)	-	-	(9,053)
Loan from governmental fund	-	300,000	-	-	300,000
	-	262,697	-	-	262,697
<b>Cash flows from investing activities:</b>	<b>39,498</b>	<b>3,087</b>	<b>8,053</b>	<b>-</b>	<b>50,638</b>
Interest income					
<b>Net increase (decrease) in cash</b>	<b>(1,756,940)</b>	<b>(108,616)</b>	<b>159,086</b>	<b>2,500</b>	<b>(1,703,970)</b>
<b>Cash at beginning of year</b>	<b>2,499,742</b>	<b>1,104,540</b>	<b>1,179,606</b>	<b>16,184</b>	<b>\$ 4,800,072</b>
<b>Cash at end of year</b>	<b>\$ 742,802</b>	<b>\$ 995,924</b>	<b>\$ 1,338,692</b>	<b>\$ 18,684</b>	<b>\$ 3,096,102</b>

## MUNICIPALITY OF CAGUAS

Statement of cash flows - Proprietary Funds  
Proprietary Funds

June 30, 2003

Fine Arts Center	Community Development Bank	Multitenant Funds	Turabo Recreation Park	Total Proprietary Funds
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Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:

Adjustments to reconcile operating income (loss) to net cash provided in (used by) operating activities:

Operating income (loss)	\$ (354,283)	\$ (12,732)	\$ 107,843	\$ (146,857)	\$ (406,029)
Depreciation	99,003	9,422	64,074	149,357	321,856
Increase in loans receivable	-	(372,334)	-	-	(372,334)
Increase in rent collected in advance	-	-	6,155	-	6,155
Increase in accounts payable	80,128	-	-	-	80,128
Net cash provided by (used in) operating activities	<u>\$ (175,152)</u>	<u>\$ (375,644)</u>	<u>\$ 178,072</u>	<u>\$ 2,500</u>	<u>\$ (370,224)</u>

See notes to general financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003

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 accounting principles generally accepted in the United States of America (GAAP) 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.

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 significantly changed the way in which the Municipality reported 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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
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The Municipality implemented this statement in fiscal year ended June 30, 2003.

B. Basic Financial Statements GASB Statement No. 34

Government Wide Financial Statements:

The focus of the government wide financial statements is on the overall financial position and activities of the Municipality as a whole. The government wide financial statements will provide with the following:

- Present financial information about the overall government without presenting information about the individual funds or fund types.
- Differentiate between the Municipality's governmental activities and business type activities.
- Measure and present all financial balances and activities based on the economic resources measurement focus and the accrual basis of accounting.

The flow of economic resources measurement and accrual accounting are the basis upon which government wide financial statements are prepared. Under the flow of economic resources measurement focus and accrual basis of accounting, revenues are recognized when earned and expenses are incurred when incurred when these activities are related to exchange and exchange like activities. In addition, long-lived assets are capitalized and depreciated over their estimated economic lives.

The government wide statements include the Statement of Net Assets and the Statement of Activities:

a. Statement of net assets:

Presentation of assets and liabilities – Assets and liabilities should be presented in the statement of net assets based on their relative liquidity. The liquidity of the assets is determined based their ability to be converted in cash and the absence of any restriction that might limit their conversion to cash. The liquidity of liabilities is based on maturity dates or expected payment dates.

Presentation of capital assets – The governmental entity should report all of its capital assets in the statement of net assets, based on their original historical cost. Capital assets that have been donated should be capitalized at their estimated fair value at the date of the receipt.

Presentation of long term liabilities – Long term liabilities include debts such as bonds, notes, and federal loans. In addition, operating liabilities such as compensated absences and claims must be reported in the statement of net assets.

Presentation of component of net assets – Net assets represent the difference between the Municipality's total assets and its total liabilities. The statement of net assets must identify the components of the net assets, namely (a) invested in capital assets, net of related debt; (b) restricted net assets; and (c) unrestricted net assets.

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Invested in capital assets, net of related debt is the difference between capital assets (net of accumulated depreciation) and liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted net assets arise if either of the following conditions exists: (a) externally imposed by creditor, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Assets that are not classified as invested in capital assets (net of related debt) or restricted are included in the category of unrestricted net assets.

b. Statement of Activities:

The focus of the statement of activities is on the net cost of the various activities provided by the governmental entity. The difference between the expenses and revenues related to the specific activities, which identifies the extent to which each function of the Municipality draws from the general revenues of the Municipality or is self financing through fees and intergovernmental aids.

Revenues and other financing inflows – A fundamental concept in the presentation of the statement of activities is the identification of resources inflows to the Municipality that are related to specific programs and those that are general in nature. Revenues are divided in program revenues and general revenues.

Program revenues are those that are identified with an specific function, otherwise the revenues would not flow to the Municipality. As established before, program revenues are presented in the statement of activities as a subtraction of related program expenses in order to identify the net cost or benefit of a particular program. Program revenues are divided in charges for services, operating grants and contributions and capital grants.

General revenues – General revenues included resources that are not specifically related with a specific function, but that are used in the operation of the Municipality.

Expenses – The Municipality reports expenses, including depreciation expense by function. Direct expenses are those that are specifically associated with a service, program or department and are clearly identifiable to a particular function.

Generally, the cost (net of estimated salvage value) of capital assets should be depreciated over their estimated useful lives. Depreciation expense is reported as direct expense of the specific functional category with which the related capital asset has relationship.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

**Fund Financial Statements:**

Fund based financial statements are included in order to demonstrate that restrictions imposed by statutes, regulations, or contracts have been followed. The Municipality has the following major funds:

Governmental funds - These financial statements have a short term emphasis and generally measure and account for cash and other assets that can easily be converted to cash and 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. The Municipality's major funds are the following:

General fund

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

Housing Rental Programs

Account for current financial resources restricted mainly for housing rental programs to low and very low income family units. Resources are funded by the United States Department of Housing and Urban Development through the Section 8 Housing Voucher Program.

Head Start Youth and Children Program

Account for current financial resources restricted for the education of pre-school aged children that are funded by the United States Department of Health and Human Services.

Capital Projects

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.

Debt service funds

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.

Other Special Revenue funds

Current financial resources 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.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

The financial statements of the governmental funds are the following:

Balance sheet – Reports information about the current financial resources (assets, liabilities and fund balances) of each major governmental fund.

Statement of revenues, expenditures and changes in fund balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund.

Proprietary funds – Financial statements for proprietary funds are based on the flow of economic resources (measurement focus) and the accrual basis of accounting. They are used to account for activities, which are similar to operations in the private sector. The proprietary fund type consists of enterprise funds.

Enterprise funds

The enterprise funds are 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. The Municipality's enterprise funds follows:

Fine Arts Center – Accounts for the economic resources used to cover the costs for offering artistic, cultural and social activities for the benefit of the citizenship.

Community Development Bank – Accounts for the economic resources designated mainly for the approval of loans for economic development, education and emergency in the benefit of the Caguas citizenship.

Turabo Recreational Park - Accounts for the resources used for the future use of the facilities for sport and recreational activities.

Multitenant Funds – Accounts the deposit of rental resources designated for the Municipality's normal operation other than those functions accounted in the general fund.

The financial statements of the proprietary funds are the following:

Statement of net assets or balance sheet – Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities.

Statement of revenues, expenditures and changes in fund net assets – Revenues and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
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**Statement of cash flows** – The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and disbursements of the Municipality during the fiscal year. The information of the statement of cash flows should help financial report users assess (a) Municipality's ability to generate future cash flows; (b) ability to meet its obligation as they come due; (c) its needs for external financing; (d) the reasons for differences between operating income and associated cash receipts and disbursements and the effects on the entity's financial position of both its cash and its non cash investing, capital and financing transactions during the period.

**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.

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.

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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.

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 accounting principles generally accepted in the United States of America (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.

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.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
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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	\$ 2,716,575
Prior year encumbrances settled during the current year	2,049,819
Current year encumbrances treated as current year expenditures for budgetary purposes	(5,226,372)
City Council Resolutions	<u>5,137,350</u>
	<u>\$ 4,677,372</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, 2003 the Municipality had an unrealized gain on investments of approximately \$698,200. 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.

**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.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

Eliminations are made in the government wide statements of the amounts reported as interfund receivables as well as operating transfers, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.

**G. Capital assets**

Capital assets acquired or constructed are reported as expenditures in the fund that finances the acquisition and are capitalized at cost in the government-wide statements, as part of governmental activities and depreciated over their economic lives. Donated capital assets are reported at estimated fair market value at the date received. Also, certain improvements such as roads, streets, bridges, curbs and gutters sidewalks are capitalized.

The Municipality determined that its capitalization threshold was to capitalize equipment and vehicles of \$50 and over.

The Municipality established the following useful lives in months:

Facilities and recreational parks	120 to 720
Building and building improvements	60 to 360
Rural streets and roads	nil to 600
Personal property	36 to 180
Software	60 to 72

**H. Enterprise fund capital assets**

Property and equipment of the enterprise fund are stated at cost. Building depreciation is provided over the estimated useful life 360 months 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, 2003.

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, 2003.

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Total debt for compensated absences amounts to \$ 8,053,000 representing the Municipality's commitments to fund such compensated absences from future operations.

J. Long-term debt

The liabilities reported in the government-wide statements 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 fund balance available to finance future debt service payments.

Capital projects - Represent fund balance 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 government wide statements 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.

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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
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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 2003 is 8.78% for real property and 6.58% 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 2003 the allocated expenses amounted to \$1,774,165.

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.

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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 December 31.

Since volume of business tax revenues result from assessments imposed by the Municipality on exchange transactions, they meet the definition of derived tax revenues. As a result, the Municipality recognized an account receivable of volume of business taxes to be collected during the next year, based on the period when the exchange transaction on which the tax is imposed occurs, and a revenue, net of estimated uncollectible accounts in the same period that the asset (cash or receivable) is recognized in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

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.

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.

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Balances held in each category are as follows:

	1	Categories 2	3	Bank Balance	Carrying Amount
Cash	\$ 35,897,603	\$ -	\$ 23,239,723	\$ 59,137,326	\$ 54,331,573
U.S. Government securities	-	-	4,781,247	4,781,247	4,781,247
Certificates of Deposit	-	7,719,768	-	7,719,768	7,719,768
	-	-	-	-	-
	<u>\$ 35,897,603</u>	<u>\$ 7,719,768</u>	<u>\$ 28,020,970</u>	<u>\$ 71,638,341</u>	<u>\$ 66,832,588</u>

Deposits at the Government Development Bank for Puerto Rico 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.

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, 2003:

Receivable Fund	Payable Fund	Amount
	Community Development Bank	\$300,000
	Debt Service	9,371
	Capital Project	1,196,827
	Housing Rental Program	487,424
	Other Special Revenue	<u>7,227,478</u>
General		<u>\$ 9,221,100</u>
Head Start	General	<u>\$259,538</u>
	General	\$560,871
	Other Special Revenue	<u>288,274</u>
Debt Service		<u>\$849,145</u>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

**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 amounts of contribution in lieu of tax for the year 2002-2003 was \$7,131,000

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

**Note 6 - Capital assets**

A summary of the activity of capital assets for governmental activities group follows:

	Balance June 30, 2002	Additions	Retirements	Transfers	Balance June 30, 2003
<b><u>Capital assets not being depreciated</u></b>					
Land and improvements	\$ 21,877,357	\$ 3,604,846	\$ -	\$ -	\$ 25,482,203
Construction in progress	4,744,746	15,140,712.00	-	(12,184,111)	7,701,347
Works of art and historical treasures	<u>2,201,811</u>	<u>52,000</u>	-	-	<u>2,253,811</u>
Total not being depreciated	<u>\$ 28,823,914</u>	<u>\$ 18,797,558</u>	<u>\$ -</u>	<u>\$ (12,184,111)</u>	<u>\$ 35,437,361</u>
<b><u>Other capital assets</u></b>					
Building and improvements	\$ 10,409,342	\$ -	\$ -	\$ 2,681,331	\$ 13,090,673
Facilities and improvements	80,736,883	-	-	3,951,510	84,688,393
Equipment and vehicles	22,954,847	2,150,137	(174,180)	-	24,930,804
Rural roads and streets	<u>32,018,349</u>	<u>-</u>	<u>-</u>	<u>5,551,270</u>	<u>37,569,619</u>
	<u>\$ 146,119,421</u>	<u>\$ 2,150,137</u>	<u>\$ (174,180)</u>	<u>\$ 12,184,111</u>	<u>\$ 160,279,489</u>

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<u>Accumulated depreciation</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Depreciation</u> <u>expense</u>	<u>Retirements</u>	<u>Transfer</u>	<u>Balance</u> <u>June 30, 2003</u>
Building and improvements	\$ 3,369,087	\$ 346,978	\$ -	\$ -	\$ 3,716,065
Facilities and improvements	46,945,500	4,776,813	-	-	51,722,313
Equipment and vehicles	9,112,385	2,436,699	(150,040)	-	11,399,044
Rural roads and streets	<u>12,930,098</u>	<u>1,357,772</u>	<u>-</u>	<u>-</u>	<u>14,287,870</u>
	<u>\$ 72,357,070</u>	<u>\$ 8,918,262</u>	<u>\$ (150,040)</u>	<u>\$ -</u>	<u>\$ 81,125,292</u>
 Capital assets, net	 <u>\$ 102,586,265</u>				 <u>\$ 114,591,558</u>

Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

General government	\$ 1,153,334
Public safety	171,372
Public works	3,701,525
Culture and recreation	972,033
Health and welfare	2,410,078
Economic development	209,476
Education	<u>300,444</u>
	<u>\$ 8,918,262</u>

Note 7 - General long-term debt

Changes in general long-term debt of governmental activities for the year ended June 30, 2003 are summarized as follows:

	<u>Bonds</u>	<u>Federal</u> <u>Loan</u> <u>And Notes</u>	<u>Special</u> <u>Loans</u>	<u>Total</u>
Balance at June 30, 2002	\$ 72,908,030	\$ 12,595,000	\$ 17,763,957	\$ 102,266,987
Payments	(4,232,000)	(610,000)	(586,033)	(5,428,033)
New debt issued	<u>-</u>	<u>-</u>	<u>2,350,000</u>	<u>2,350,000</u>
 Balance at June 30, 2003	 <u>\$ 68,676,030</u>	 <u>\$ 11,985,000</u>	 <u>\$ 19,527,924</u>	 <u>\$ 100,188,954</u>

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As of June 30, 2003, debt service requirements for the above long-term debt, are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 5,918,033	\$ 6,137,699	\$ 12,055,732
2005	6,038,033	5,795,770	11,833,803
2006	5,457,033	5,429,587	10,886,620
2007	5,844,033	4,713,348	10,557,381
2008	5,636,033	4,468,923	10,104,956
2009-2013	29,662,761	18,226,790	47,889,551
2014-2018	18,711,000	9,783,472	28,494,472
2019-2023	12,977,027	5,132,989	18,110,016
2024-2028	9,945,001	1,236,875	11,181,876
	<u>\$ 100,188,954</u>	<u>\$ 60,925,453</u>	<u>\$ 161,114,407</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 \$873,158,300, of which \$477,660,315 and \$390,344,485 are real and personal property, respectively.

A. Bonds

General obligation bonds payable as of June 30, 2003 are as follows:

<u>Series</u>	<u>Interest Rate</u>	<u>Payable Through</u>	<u>Original Issue</u>	<u>Balance July 2, 2003</u>
1983	5.00	2008	663,000	210,000
1985	5.00	2010	1,118,000	519,003
1986	6.13	2011	1,870,000	971,000
1986	5.00	2011	283,000	135,000
1988	5.00	2014	85,000	53,000
1990	5.00	2015	580,000	381,000
1990	3.26-6.31	2005	2,395,000	530,000
1990	6.26	2005	6,425,000	1,445,000
1991	3.26-6.41	2007	4,745,000	1,910,000
1993	5.00-7.71	2013	18,890,000	12,915,000
1995	4.70-8.00	2015	15,955,000	12,255,000
1994	5.63	2018	2,200,000	1,853,000
1996	4.5	2019	776,000	670,027

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

Series	Interest <u>Rate</u>	Payable <u>Through</u>	Original <u>Issue</u>	Balance <u>July 2, 2003</u>
1998	4.88	2004	300,000	49,0000
1999	8.00	2106	13,300,000	11,215,000
2000	7.29	2024	3,150,000	2,960,000
2000	7.29	2016	10,350,000	9,375,000
2000	7.29-12.0	2004	1,090,000	255,000
2002	5.00-7.5	2026	9,845,000	9,545,000
2002	5.00-8.00	2026	125,000	115,000
2002	5.00-8.00	2026	1,360,000	1,315,000
<b>Total bonds payable</b>				<u><b>\$ 68,676,030</b></u>

**B. Federal loans and notes**

<p>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 .</p>	7,600,000
<p>Sec. 108 loan \$2,240,000, interest from 3.82% to 7.08% payable in annual installments from \$60,000 to \$270,000 until year 2013, secured by the Municipality.</p>	1,515,000
<p>Sec. 108 loan \$4,870,000, interest from 3.82% to 6.83% payable in annual installments from \$160,000 to \$500,000, until year 2013, secured by the Municipality.</p>	<u>2,870,000</u>
<b>Total federal loans and notes</b>	<u><b>\$ 11,985,000</b></u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

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, secured by the Municipality.	\$ 2,065,000
Operational loan of \$2,350,000 payable in annual installments from \$270,000 to \$400,000 with interest of 5.5% until 2009, secured by the Municipality.	2,080,000
Operational loan of \$580,000 payable in annual installments of \$29,000 at 8% interest until 2007, secured by the Municipality.	116,000
Operational loan of \$540,000 payable in annual installments of \$27,033 at 8% interest until 2008, secured by the Municipality.	141,924
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, secured by the Municipality.	<u>15,125,000</u>
Total loans	<u>\$19,527,924</u>
Total general long-term debt	<u>\$100,188,954</u>

Long-term debt for enterprise funds at June 30, 2003 is summarized as follows:

Special bond obligation for \$500,000 to provide financing for 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, secured by the Municipality.	\$ 420,750
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, secured by the Municipality.	300,000

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

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, secured by the Municipality.	<u>5,095,000</u>
Total long-term debt	<u>\$5,815,750</u>

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

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 176,973	\$ 373,778	\$ 550,751
2005	182,610	324,506	507,116
2006	188,246	317,788	506,034
2007	198,894	310,346	509,240
2008	204,548	302,200	506,748
2009-2013	1,004,434	1,366,112	2,370,546
2014-2018	1,005,000	1,091,188	2,096,188
2019-2023	1,370,000	714,751	2,084,751
2024-2028	<u>1,485,045</u>	<u>3,510,685</u>	<u>4,995,730</u>
	<u>\$ 5,815,750</u>	<u>\$ 8,311,354</u>	<u>\$ 14,127,104</u>

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 employer contributions during the year ended June 30, 2003 amounted to approximately \$ 2,401,005.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

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, 2003, total covered payroll was approximately \$25,886,000. 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.

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, 2003 amounted to approximately \$1,005,700.

Future operating lease commitments are scheduled as follows:

2004	\$ 438,908
2005	76,793
2006	76,793
2007	76,793
2008	123,726
	<u>\$ 793,013</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

**B. General commitments**

The Municipality has commitments to invest approximately \$37,400,000 to complete construction projects at several locations within the Municipality. Federal funds amounting to \$ 11,130,000 and municipal funds amounting to approximately \$26,270,000 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 \$200,000 in the government-wide statements 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. 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. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAGUAS

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (continued)  
JUNE 30, 2003

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 \$6,981,000 for the fiscal year ended June 30, 2003.

Note 12 - Prior period adjustments

A. General fund

The Municipality restated the beginning fund balance at July 1, 2002 by \$7,415,995 due to an understatement of volume of business tax revenue for the fiscal year ended June 30, 2002 and an overstatement of deferred volume of business tax revenue at June 30, 2002.

B. Debt service fund

The Municipality restated the beginning fund balance at July 1, 2002 in order to correct an overstatement by \$8,152,216 in debt service expenditures for the fiscal year ended June 30, 2002.

C. Other Special Revenue funds

The Municipality restated the beginning fund balances at July 1, 2002 in order to correct understatement of \$13,512,414 of federal grant revenues (government mandated non-exchange transactions) for the fiscal years ended June 30, 2002 and 2001, since such revenues were not recognized based on the grants approved for those fiscal periods.

COMISIONADO  
DE ASUNTOS MUNICIPALES  
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*0846-107/2003*

**SINGLE AUDIT PACKAGE**  
**MUNICIPALITY OF CAGUAS**

**Fiscal Year Ended**  
**June 30, 2003**

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

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

We have audited the basic financial statements of the Municipality of Caguas as of and for the year ended June 30, 2003 and have issued our report thereon dated January 16, 2004. 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 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.

**PANNEL 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 item 2003-1.

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 consider the reportable condition described above to be a material weakness.

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.



January 16, 2004

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

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**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, 2003. 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 Marin*  
*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 2003-2 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with requirements regarding cash management that are applicable to its Section 8 Housing Choice Voucher major federal program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

As described in item 2003-3 in the accompanying schedule of findings and questioned costs, the Municipality of Caguas did not comply with requirements regarding equipment and real property management that are applicable to its Community Development Block Grant, Home Investment Partnerships, Section 8 Housing Choice Voucher, and Head Start major federal programs. Compliance with such requirements is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

As described in items 2003-4 and 2003-8 in the accompanying schedule of findings and questioned costs, the Municipality of Caguas did not comply with requirements regarding allowable costs that are applicable to its Community Development Block Grant and Child Care Food major federal programs. Compliance with such requirements is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

As described in item 2003-5 in the accompanying schedule of findings and questioned costs, the Municipality of Caguas did not comply with requirements regarding subrecipient monitoring that are applicable to its Community Development Block Grant major federal programs. Compliance with such requirements is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

As described in item 2003-6 in the accompanying schedule of findings and questioned costs, the Municipality of Caguas did not comply with special tests and provisions that are applicable to its Community Development Block Grant, Home Investment Partnerships, Section 8 Housing Choice Voucher, and Head Start major federal programs. Compliance with such requirements is necessary, in our opinion, for the Municipality of Caguas to comply with requirements applicable to that program.

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

As described in item 2003-7 in the accompanying schedule of findings and questioned costs, the Municipality of Caguas did not comply with reporting requirements that are applicable to its Head Start major federal programs. Compliance with such requirements 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, 2003.

*Internal control over compliance*

The management of the Municipality of Caguas 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.

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 weaknesses.

*Hon. William Miranda Marin*  
*Mayor*  
*Commonwealth of Puerto Rico*  
*Municipality of Caguas*  
*Page 4*

Schedule of expenditures of federal awards

We have audited the basic financial statements of the Municipality of Caguas as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated January 16, 2004. 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 basic 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 29, 2004

**Pannell Kerr Forster, LLP**

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

*For the Fiscal Year Ended June 30, 2003*

## 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 that are not considered to be material weakness? | No  |
| 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) that are 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
10.558	USDA Food Program
14.871	Section 8 Housing Choice Voucher
10.766	Guaranteed Loan \$8,000,000

Dollar threshold used to distinguish between Type A and Type B programs: \$999,952

Auditee qualified as a low-risk auditee? No

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2003-1**

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

**Condition:** We noted the following internal control weaknesses in the use of the OCAM Accounting System.

1. Loan transactions of the Community Development Bank (the Bank) per OCAM Accounting System are not reconciled with the detailed accounting records maintained in the Bank.
2. The Municipality does not perform monthly reconciliations between cash control accounts in the OCAM Accounting System and the bank reconciliations for the General and Head Start bank accounts. In addition, the bank reconciliations of the Head Start fund from July 2002 to May 2003 were prepared during the month of July 2003, and the bank reconciliation of the month of June 2003, was prepared on August 2003.
3. There is no accurate detail of the expenditures accounts 99.99, *Payments of Prior Year Obligations*, in the Municipality's accounting system.

**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.

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.

**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 this business-type activity be recorded separately and is not configured to provide accurate details of business type activities for loans and for expenditures of prior year budgets.

***Effect:*** Because of the OCAM accounting system design limitations the Municipality of Caguas has to maintain manual accounting books for this business-type activity in order to assure that the specific activities are carried and the objectives are attained in compliance with special regulations, restrictions, or limitations of such transactions. In the specific case of the *Payments of prior year obligations*, the situation mentioned in the condition stated above caused that the Municipality's Finance Department has to use alternate records to maintain proper accountability of such transactions.

Finally, these situations caused that significant adjustments had to be proposed in order to obtain reasonable assurance of the cash, receivables and expenditures/expenses balances at June 30, 2003.

***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 to request such an 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.

Once the Municipality begins to operate the new accounting system, (SAP), 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.

In addition, we recommend that, as part of the transition process from the OCAM to the SAP System, the Municipality configures the chart of account in order to make a clear distinction of expenditures accounts of current from prior years' budget.

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**END FINDING NO. 2003-1**

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**SECTION 3 – FEDERAL AWARDS FINDINGS**

**Finding 2003-2**

Program CFDA No. / Grant No.:	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, 2003, the Municipality did not minimize the amounts maintained in bank accounts for the Section 8 Housing Choice Vouchers.

**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 the above mentioned regulations.

**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.

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**END FINDING NO. 2003-2**

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### Finding 2003-3

Program CFDA No. / Grant No.:	93.600 Head Start Program
Type of Reportable Condition:	Non-compliance – Equipment and real property management
Questioned Cost:	None

Condition: We noted the following situations for the Head Start Program:

- During our physical inspections of a sample of eleven (11) property units acquired during year 2002-2003, two (2) items for \$20,092 were not marked with the property identification number.
- One (1) item for \$20,000 did not have the Property Maintenance Sheet.
- The above mentioned item of \$20,000 was not included in the Municipality's capital assets subsidiary at June 30, 2003.

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. In addition, it also establishes that a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft 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, no adequate control procedures were provided for the items related with Head Start.

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.

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END FINDING NO. 2003-3

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### Finding 2003-4

Program CFDA No. / Grant No.:	14.218 Community Development Block Grant
Type of Reportable Condition:	Non-compliance – Allowable Costs/Cost Principles
Questioned Cost:	\$18,079

Condition:

During fiscal year ended June 30, 2003, the Municipality disbursed funds for \$18,079 from the Community Development Grant fund to cover payroll costs of services provided by an employee which worked full time in activities of the Section 8 Housing Choice Voucher Program.

Criteria: Circular A-87, *Allowable Costs & Cost Principles*, establishes the following:

*“C. Basic Guidelines*

1. *Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
  - a. *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*
  - b. *Be allocable to Federal awards under the provisions of this Circular.*
  - c. *Be authorized or not prohibited under State or local laws or regulations.*
  - d. *Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.*
  - e. *Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.*
  - f. *Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.*
  - g. *Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.*

- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.*
- i. Be the net of all applicable credits.*
- j. Be adequately documented."*

Cause: The Municipality does not have an adequate cost allocation plan for the administration of federal awards.

Effect:

1. Non-compliance with the laws and regulations established above.
2. Reporting of questioned cost for \$18,079.
3. The risk that the federal agency involved with the Community Development Block Grant program may suspend or reduce federal financial assistance programs to the Municipality.

Recommendation: The persons involved in the process of preparing and authorizing the cost allocation related with federal programs funds must be aware of the activities specifically allowed in the grant agreement of the specific program to be affected by the transaction, in order to verify if such cost is directly related with the activities performed by the employees whose salaries are covered by federal funds.

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END FINDING NO. 2003-4

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### Finding 2003-5

Program CFDA No. / Grant No.:	14.218 Community Development Block Grant
Type of Reportable Condition:	Internal control Non-compliance – Sub-recipient monitoring
Questioned Cost:	None

Condition: The Municipality did not perform adequate oversight and/or monitoring procedures regarding the use of funds donated and/or delegated during the year ended June 30, 2003 to the following entities:

<u>Entity</u>	<u>Amount of donation</u>	<u>Purpose of donation</u>
INOTEF	\$ 53,800	Public Service
University of Turabo	100,000	Construction of museum

Criteria:

Circular OMB A-102 establishes in sub part C, about *Reports, Records, Retention, and Enforcement* § \_\_.40 *Monitoring and reporting program performance*, establishes the following:

Monitoring by grantees. *Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.*

Cause: Lack of care and proper oversight regarding the funds donated or delegated to private entities.

Effect: In addition to the noncompliance with the provisions of Circular OMB A-102, this situation may cause that the funds donated or delegated to private entities be used not in agreement with the purpose originally intended without timely detection by the Municipality.

Recommendation: We recommend that the Internal Audit and/or the Planning Departments consider as part of their annual plan or work schedule the programming of monitoring procedures in order to establish better oversight to sub-recipients in terms of the use of federal funds.

### Finding 2003-6

Program CFDA No. / Grant No.:	14.218 Community Development Block Grant
Type of Reportable Condition:	Internal control Non-compliance – Special tests and provisions
Questioned Cost:	None

Condition: The Municipality did not perform on-site inspections in the housing units of the following beneficiaries of the Minimum Rehabilitation Project:

<u>Name</u>	<u>File number</u>
Francisca Ocasio Flores	02-0084
Carmen G. Delgado	02-0119
Margarita Borges Márquez	02-0135
Nancy Ortiz Díaz	00-0453

Criteria:

Code of Federal Regulations, 24 CFR section 570.506 establishes that when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed and inspect that the rehabilitation works are carried out in accordance with specific contract specifications from the starting point upon completion.

Cause: Lack of care and proper oversight regarding the inspection procedures to Minimum Rehabilitation Projects.

Effect: In addition to the noncompliance with the provisions of 24 CFR, this situation may cause that the funds designated for minimum rehabilitation projects be used not in agreement with the purpose originally intended without timely detection by the Municipality.

Recommendation: We recommend that the Internal Audit and/or the Housing Departments consider as part of their annual plan or work schedule the programming of monitoring procedures in order to establish better oversight to minimum rehabilitation projects to assure that inspections be realized as required by the federal regulation.

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END FINDING NO. 2003-6

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### Finding 2003-7

Program CFDA No. / Grant No.:	93.600 Head Start Program
Type of Reportable Condition:	Internal control Non-compliance – Reporting
Questioned Cost:	None

Condition: The Financial Status Report of the period from January to December 2002 did not tie with the Head Start Program accounting records.

Criteria: Circular OMB A-102, Subpart C—*Post-Award Requirements, Financial Administration*, § \_\_.20 *Standards for financial management systems* establishes that

*(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to —*

*(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and*

*(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.*

*(b) The financial management systems of other grantees and sub-grantees must meet the following standards:*

*(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.*

*(2) Accounting records. Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income.*

*(3) Internal control. Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.*

Cause: No periodic reconciliations are performed between the financial data of the Head Start's accounting records and the Financial Status Reports. In addition, the financial status report are not being revised in the Accounting Area of the Finance Department.

**Effect:** This condition limits the Municipality's Head Start program of having reasonable assurance that it complies with the internal control objective of reliable financial reporting and does not permit the tracing of balances in the Financial Status Reports to the program's accounting records.

**Recommendation:** We recommend the implementation or modification of the reconciliation procedures between the financial data recorded in the Head Start accounting records and the data included in the Financial Status Reports in order to provide for fiscal controls and accounting procedures that are:

1. In accordance with generally accepted accounting principles including:
  - a) Information pertaining to obligations, un-obligated 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 charging of costs and cost allocation, and

Sufficient to:

- c) 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
- d) Permit preparation of required reports.

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END FINDING NO. 2003-7

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### Finding 2003-8

Program CFDA No. / Grant No.:	10.558 USDA Child Care Food Program
Type of Reportable Condition:	Non-compliance – Allowable costs/cost principles
Questioned Cost:	\$11,515

Condition:

During fiscal year ended June 30, 2003, the Municipality transferred funds for \$11,515 from the Child Care fund to the of bank account of Rents from Consolidated Mall account for the cost of utilities included in the rent contract for the use of the Child Care food warehouse . As per written communication issued by the United States Child Care Nutrition Division of the US Department of Agriculture, paragraphs 19c and 21b, the cost of utilities is not allowable to be paid with the rent.

Criteria: Circular A-87, *Allowable Costs & Cost Principles*, establishes the following:

*“C. Basic Guidelines*

1. *Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
  - a. *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*
  - b. *Be allocable to Federal awards under the provisions of this Circular.*
  - c. *Be authorized or not prohibited under State or local laws or regulations.*
  - d. *Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.*
  - e. *Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.*
  - f. *Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.*
  - g. *Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.*

- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.*
- i. Be the net of all applicable credits.*
- j. Be adequately documented."*

Written communication issued by the United States Child Care Nutrition Division of the US Department of Agriculture, paragraphs 19c and 21b, ON June 28, 1994, the cost of utilities is not allowable to be paid with the rent.

Cause: Lack of knowledge about the provisions of the written communication.

Effect:

- 4. Non-compliance with the laws and regulations established above.
- 5. Reporting of questioned cost for \$11,515.
- 6. The risk that the federal agency involved with the USDA Child Care Food program may suspend or reduce federal financial assistance programs to the Municipality.

Recommendation: The persons involved in the process of preparing and authorizing the disbursement related with federal programs funds must be aware of the activities specifically allowed in the grant agreement of the specific program to be affected by the transaction, in order to verify if such cost is allowable or not.

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END FINDING NO. 2003-8

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**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 No. 2002-1 and 2001-1**

**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 Community Development Bank during the current period were recorded as expenditures in the Special Revenue Fund.*
- *The collection of the above mentioned loans during the current period were recorded as revenues in the Special Revenue Fund.*

**Audit finding status**

Corrective action was taken, except for the loan transactions of the Community Development Bank.

**Findings 2002-2 and 2001-2**

**Audit finding description:**

*The Municipality does not perform monthly bank reconciliations with the cash control accounts in the general ledger.*

*Un-reconciled 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 taken except for the General Bank Account.

**Findings 2002-3 and 2001-3****Audit finding description:**

*Interfund transactions were not balanced at end of year.*

**Audit finding status**

Corrective action was taken.

**Findings 2002-4 and 2001-4****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 taken.

**Findings 2002-5 and 2001-5****Audit finding description:**

*During the current period 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 taken.

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

### Finding 2002-6

#### **Major Programs:**

Community Development Block Grant (CDBG), Home Investment Partnership Program and Section 8 Housing Choice Vouchers.

#### **Audit finding description:**

*During fiscal year ended June 30, 2002, the Municipality did not minimize the amounts maintained in bank accounts.*

#### **Audit finding status:**

Corrective action was taken except for the Section 8 Housing Choice Vouchers.

### Finding 2002-7

#### **Major program:**

Head Start, Community Development Block Grant, Home Investment Partnership and Section 8 Housing Vouchers Program

#### **Audit finding description:**

*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.*

#### **Audit finding status:**

Condition was corrected for the Head Start Program and prevails for all of the remaining programs.

**Finding 2001-7****Audit finding description:**

*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 need for Community Oriented Services, Child and Adult Care Food Program, Community Development Block Grant, Home, and Urban Development Action Grant*

**Audit finding status:**

Corrective action was taken.

**Finding 2001-8****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:**

Condition was corrected for the Head Start Program and prevails for all of the remaining programs.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

*Fiscal Year Ended June 30, 2003*

<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)	10.766	B-88-MC-72-0001	\$ 107,026
	Rural Loan and Grant Program (EMP 8,000,000)	10.766	B-98-MC-72-0001	3,923,329
Pass-through PR Department of Education	USDA Food Program	10.558	N/A	898,920
Pass through PR Department of Family	Geriatric Elderly Care Program	93.044		176,859
US Department of Health and Human Services	CSBG Law 105-285	93.569		7,718
	Head Start Program	93.600	02-CH-0263-18	9,870,039
	HOPWA	N/A		16,190
	HIV Emergency Relief Project Grant	93.915		2,021,288
	SENDEC	93.575		456,520
	Self Help Housing	N/A	63-05-066-0433568	114,138
US Department of Housing and Urban Development	Community Development Block Grant	14.218	B-01-MC-72-0001	7,461,585
	Emergency Shelter Grant	14.231	S-01-MC-72-0005	172,149
	Home Investment Partnership Program	14.239	M-01-MC-72-0203	472,090
	Section 8 Housing Choice Vouchers	14.871	RQ-007-V0	5,853,255
	Urban Development Action Grant	14.221	N/A	415,848
US Department of Justice	Weed and Seed	N/A	2002-WS-QX-0131	26,973
	Community Oriented Policing Services Edward Byrne Memorial ("Centro de Vida Familiar")	16.710	1997-UM-WX-1321	581,453
	Local Law Enforcement ("Radio/Patrulla Policia")	16.579	N/A	316,447
		16.592	N/A	193,205
Federal Emergency Management Agency Pass- through The Office of the Governor of Puerto Rico	Disaster Assistance	83.516	N/A	189,744
US Department of Commerce -Economic Development Administration (EDA)	Multi-tenant Project	N/A	01-11-02519	42,510
<b>Total Expenditures</b>				<b>\$ 33,317,286</b>

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

*Fiscal Year Ended June 30, 2003*

### NOTE 1 – GENERAL

The accompanying schedule of expenditures of federal awards presents the expenditures, for the fiscal year ended June 30, 2003, 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 basic financial statements of the Municipality of Caguas for the fiscal year ended June 30, 2003.

### NOTE 3- SUBRECIPIENTS

During fiscal year 2002-03, the Municipality disbursed \$1,664,284 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"	\$ 66,305
	"Asociación Familiares y Amigos Pacientes SIDA"	40,263
	"Fundación de Desarrollo Comunal" (FUNDESCO)	27,715
	"Voluntarios Acción SIDA"	37,350
	Gurabo Community Health Center	698,220
	Hogar CREA Juncos	421,939
	"APSAPS-Asociación Puertorriqueña de Pacientes de SIDA"	192,232
<b>Subtotal</b>		<b>1,484,026</b>
Emergency Shelter Grant	<i>Milagros del Amor Corporation</i>	9,227
	"Instituto de Orientación y Terapia Familiar" (INOTEF)	37,634
	"Centro Clínico Nuevas Actitudes"	-
	"Hogar Resurrección"	40,253
	"Fundación de Desarrollo Comunal" (FUNDESCO)	48,914
<b>Subtotal</b>		<b>136,228</b>
Community Development Block Grant Entitlement	"Instituto de Orientación y Terapia Familiar" (INOTEF)	44,228
	Adolescent Suicide Prevention Program	-
<b>Subtotal</b>		<b>44,228</b>
Home Program	"Iniciativa Comunitaria para la Rehabilitación" (INCORE)	-
<b>Subtotal</b>		<b>-</b>
<b>Total</b>		<b>\$1,664,284</b>

## CORRECTIVE ACTION PLAN

Contact Persons:	Mr. Carlos Crespo Massa - Director of Finance Ms. Diana Claudio - Internal Audit Director
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### Finding 2003-2

The Director of Finance will request the Director of Housing to use the cash already available in the bank account before requesting new drawdowns in order to reduce the amounts maintained to a reasonable minimum balance after each disbursement.

### Finding 2003-3

The Director of Finance will instruct the person in charge of the municipal property management in order to revise the physical inventory taken for the Head Start Program for the period ended June 30, 2003 to determine the real cause of this situation. Then we can inform if the action plan is going to be procedures oriented or only to correct the deficiencies related with the items mentioned.

### Finding 2003-4

As of March 30, 2004, we still remained waiting for a reaction form the Planning Department, which administers the CDBG funds. Once they react, the Municipality will determine if the finding will be accepted to pay back the funds to the CDBG Program.

### Finding 2003-5

The Director of Finance will notify to the Director of Planning about the compliance with the requirement to monitor donated funds.

### Finding 2003-6

The Director of Housing is actually revising the monitoring procedures to assure a better oversight of the minimum rehabilitation projects. No more cases are going to be without the proper inspection.

### Finding 2003-7

The situation is related with the carry over of the total columns of certain FSR's (the expense reported for each period is correct). The Director of Finance will instruct the Director of the Head Start Program to amend the accounting subsidiaries in order to maintain them tied with the Municipality's accounting records.

**Finding 2003-8**

The Director of the Head Start Program accepted to reimburse the questioned costs in order to resolve the finding. In the other hand, for the fiscal year 2003-04, the Program did not renew the related contract. Also, the Director knew about the applicable criteria in order to avoid the same situation in prospective rents.