OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CAROLINA
AUDITORIA 2000-01

30 DE JUNIO DE 2001

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MUNICIPALITY OF CAROLINA
CAROLINA, PUERTO RICO

GENERAL PURPOSE FINANCIAL STATEMENTS WITH THE INDEPENDENT AUDITOR'S REPORT THEREON

JUNE 30, 2001

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MUNICIPALITY OF CAROLINA
COMMONWEALTH OF PUERTO RICO
CAROLINA, PUERTO RICO

SINGLE AUDIT REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2001

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MUNICIPALITY OF CAROLINA
COMMONWEALTH OF PUERTO RICO
CAROLINA, PUERTO RICO

SINGLE AUDIT REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2001

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NIEVES VELAZQUEZ & CO., P.S.C.
Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

To the Carolina's Honorable Mayor and
Members of the Municipality's Assembly
Carolina, Puerto Rico

We have audited the general-purpose financial statements of the Municipality of Carolina, Puerto Rico, as of and for the year ended June 30, 2001, as listed in the accompanying Table of Contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on this general purpose financial statements based on our audit.

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

As described in Note 17, the Municipality adjusted its beginning general fund balance in the amount of $1,815,503 for corrections and other considerations. The adjustment was made against the fund balance of prior years without considering the effect, if any, on the current year's revenues and expenditures of the general fund. Due to lack of information, we were unable to determine the effect, if any, on the 2001 revenues and expenditures of the general fund of the aforementioned adjustment.

421 Muñoz Rivera Avenue, Suite 314, San Juan, Puerto Rico 00919 • Telephone: (787) 250-1712 • Tel/Fax: (787) 250-1713
http://www.nievelaz.com • E- Mail Nievelaz@coqui. net

INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS
(Continuation)

As indicated in Note 10, the Municipality maintains substantial unreconciled differences to agree General and certain programs of the capital project fund balances with the related bank reconciliations at June 30, 2001. Because the uncertainty of the correctness of the General and the capital project fund balances, we were unable to determine additional adjustments, if any, that might be necessary to affect the General and capital project fund balances.

As described in Notes 1 and 9, the Municipality has not maintained complete and adequate accounting records of its general fixed assets and, accordingly, we were unable to satisfy ourselves as to the fixed assets balances of such account group amounting to $112,597,836 at June 30, 2001.

In our opinion, except for the effect, if any, on the general financial statements of the matters discussed in the third, fourth paragraphs and the incomplete records of the general fixed assets accounts group as indicated in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Carolina**, Puerto Rico, at June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended, in conformity with generally accepted accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the general-purpose financial statements, the Municipality is defendant in several lawsuits alleging unjustified dismissal of certain employees, accidents and personal injuries. For such purposes, the Municipality has established a $3,349,437 provision for claims and judgments in the general fund and in the long-term debt account group. The

INDEPENDENT AUDITOR'S REPORT ON
GENERAL PURPOSE FINANCIAL STATEMENTS
(Continuation)

Municipality believes it has adequate defenses against these legal actions and is contesting them vigorously. The ultimate outcome of these litigations cannot presently be determined. Accordingly, the adequacy of the aforementioned provision for any additional liability, and loss, that may result upon adjudication cannot be determined.

December 21, 2001
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp 1690719 was affixed to the record copy of this report.

NIEVES VELAZQUEZ & CO., P.S.C.
LIC. NO. 7
PUERTO RICO
Certified Public Accountants

MUNICIPALITY OF CAROLINA, PUERTO RICO

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2001
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2000)

	Governmental Fund Types				*Proprietary Fund Type*	*Account Groups*		*Totals (Memorandum only)*	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debt	2001	2000
Assets and Other Debits									
Cash, including certificates of deposit of $71,923,341	$ 55,798,203	4,122,987	-	21,964,998	-	-	-	81,886,188	87,358,182
Receivables:									
Direct financing lease, net of unearned interest of $8,645,575	-	-	-	-	10,127,914	-	-	10,127,914	10,614,749
Interest	247,673	-	125,398	28,794	-			401,865	788,013
From other funds	9,831,145	1,831,147	101,352	5,571,334	1,866,993	-	-	19,201,971	20,511,636
Federal grants contribution	-	9,832,866	-	13,389,258	-	-	-	23,222,124	23,391,132
Loans and accounts, net of allowance of $3,280,432 for doubtful accounts	3,463,006	1,151,627	8,832,375	1,945,365	1,624,962	-	-	17,017,335	11,485,976
Due from goverment agencies	10,345,926	-	-	-	-	-	-	10,345,926	-
Other	-	-	-	5,015,243	-	-	-	5,015,243	3,688,746
Restricted assets:									
Cash with fiscal agent	553,094	-	41,327,827	73,298,938	-	-	-	115,179,859	113,729,556
Certificates of deposit	-	-	-	-	34	-	-	34	692,096
Investments	-	-	-	-	130,660	-	-	130,660	2,022,181
Property, plant and equipment:									
Land	-	-	-	-	1,870,000	16,788,699	-	18,658,699	18,658,699
Machinery & Equipment	-	-	-	-	467,600	27,716,293	-	28,183,893	26,969,452
Buildings	-	-	-	-	11,989,400	68,092,844		80,082,244	44,082,244
Less: Accumulated depreciation	-	-	-	-	(2,722,206)	-	-	(2,722,206)	(2,435,658)
Amount available in Debt Service Fund	-	-	-	-	-	-	36,569,908	36,569,908	35,338,033
Amount to be provided for general obligation debt	-	-	-	-	-	-	135,676,362	135,676,362	110,704,394
Amount to be provided for payment of accrued vacations and sick leave	-	-	-	-	-	-	8,276,956	8,276,956	7,164,650
Amount to be provided for payment of due to federal agency	-	-	-	-	-	-	1,610,888	1,610,888	-
Amount to be provided for payment of claims and judgments	-	-	-	-	-	-	3,149,437	3,149,437	2,086,344
Amount to be provided for payment of landfill obligations	-	-	-	-	-	-	6,107,300	6,107,300	6,107,300
Amount to be provided for payment of of property taxes.	-	-	-	-	-	-	4,381,449	4,381,449	4,381,449
Total assets and other debits	$ 80,239,047	16,938,627	50,386,952	121,213,930	25,355,357	112,597,836	195,772,300	602,504,049	527,339,172

See accompanying notes to these general purpose financial statements.

(CONTINUES)

MUNICIPALITY OF CAROLINA, PUERTO RICO

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2001
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2000)
(CONTINUATION)

	Governmental Fund Types				*Proprietary Fund Type*	Account Group	Account Group	*Totals (Memorandum only)*	
Liabilities, Equity and Fund Balances	General	Special Revenue	Debt Service	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debt	2001	2000
Liabilities:									
Accounts payable and accrued liabilities	$ 17,289,876	1,390,253	-	9,422,174	880,626	-	-	28,982,929	19,494,585
Due to government agencies	1,634,470	-	-	-	-	-	-	1,634,470	2,705,260
Due to other funds	6,546,202	3,342,103	400,432	8,400,644	512,590	-	-	19,201,971	20,511,636
Due to federal agency	-	920,979	-	-	-	-	-	920,979	1,043,561
Deferred volume of business tax revenues	22,178,366	-	-	-	-	-	-	22,178,366	20,890,967
Deferred revenue-others	10,437,228	-	-	-	-	-	-	10,437,228	-
Deferred revenue-federal grants	-	8,646,238	-	13,473,053	-	-	-	22,119,291	19,331,309
Matured bonds and notes:									
Principal	-	-	8,510,000	-	-	-	-	8,510,000	8,060,000
Interest	-	-	4,906,612	-	774,385	-	-	5,680,997	5,657,422
Revenue bonds payable	-	-	-	-	16,567,800	-	-	16,567,800	18,408,310
General obligations, bonds and notes	-	-	-	-	-	-	172,246,270	172,246,270	146,042,427
Accrued vacations and sick leave	-	-	-	-	-	-	8,276,956	8,276,956	7,164,650
Provision for claims and judgments	-	-	-	-	-	-	3,149,437	3,149,437	2,086,344
Due to federal agency	-	-	-	-	-	-	1,610,888	1,610,888	-
Accrual landfill obligations	-	-	-	-	-	-	6,107,300	6,107,300	6,107,300
Property taxes advances	-	-	-	-	-	-	4,381,449	4,381,449	4,381,449
Total liabilities	58,086,142	14,299,573	13,817,044	31,295,871	18,735,401	-	195,772,300	332,006,331	281,885,221
Equity and other credits:									
Contributed capital	-	-	-	-	5,120,000	-	-	5,120,000	5,120,000
Investment in general fixed assets.	-	-	-	-	-	112,597,836	-	112,597,836	75,383,395
Retained earnings - unreserved	-	-	-	-	1,499,956	-	-	1,499,956	2,062,754
Fund balances:									
Reserved:									
Reserved for encumbrances	3,205,749	-	-	-	-	-	-	3,205,749	3,257,241
Designated for capital projects	-	-	-	89,918,059	-	-	-	89,918,059	98,558,417
Designated for equipment and other purposes	9,811,019	-	-	-	-	-	-	9,811,019	8,858,553
Designated for debt service	-	-	36,569,908	-	-	-	-	36,569,908	35,338,033
Designated for loans and grants	-	2,639,054	-	-	-	-	-	2,639,054	2,544,079
Unreserved, undesignated	9,136,137	-	-	-	-	-	-	9,136,137	14,331,479
Total equity and fund balances	22,152,905	2,639,054	36,569,908	89,918,059	6,619,956	112,597,836	-	270,497,718	245,453,951
Commitments and contingencies (Notes 16)	-	-	-	-	-	-	-	-	-
Total liabilities, equity and fund balances	$ 80,239,047	16,938,627	50,386,952	121,213,930	25,355,357	112,597,836	195,772,300	602,504,049	527,339,172

See accompanying notes to these general purpose financial statements.

MUNICIPALITY OF CAROLINA, PUERTO RICO

COMBINED STATEMENTS OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES
June 30, 2001
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2000)

	Governmental Fund Types				*Totals (Memorandum only)*	
	General	Special Revenue	Debt Service	Capital Projects	2001	2000
Revenues:						
Property taxes	$ 39,835,378	-	16,656,986	-	56,492,364	57,299,481
Volume of business taxes	26,938,282	-	-	-	26,938,282	24,050,563
Licenses, permits, fines and forfeits	4,349,700	-	-	-	4,349,700	4,471,679
Property rent	586,315	-	-	-	586,315	479,050
Landfill	1,084,565	-	-	-	1,084,565	2,427,196
Intergovernmental services	295,108	-	-	-	295,108	1,335,264
Federal assistance	-	10,831,198	-	5,119,143	15,950,341	15,070,484
Intergovernmental grants and others	6,294,759	1,012,601	-	-	7,307,360	7,345,601
Interest	9,111,898	61,029	-	184,531	9,357,458	11,337,409
Miscellaneous	4,467,470	19,705	-	4,448,118	8,935,293	5,577,518
Total revenues	92,963,475	11,924,533	16,656,986	9,751,792	131,296,786	129,394,245
Expenditures:						
Current:						
General government	37,825,124	-	-	-	37,825,124	34,463,530
Public safety	11,947,356	187,799	-	-	12,135,155	12,455,052
Highway, streets, transportation and other community areas	9,436,335	103,713	-	-	9,540,048	7,012,972
Sanitation	15,572,323	-	-	-	15,572,323	13,233,687
Health	8,008,864	-	-	-	8,008,864	8,240,849
Recreation and sports	5,890,197	-	-	-	5,890,197	5,706,142
Education and training	3,844,986	5,998,623	-	-	9,843,609	11,087,904
Housing	1,549,385	4,978,124	-	-	6,527,509	4,520,672
Welfare	-	426,539	-	-	426,539	695,466
Capital projects	-	-	-	55,081,263	55,081,263	32,116,548
Debt Service:						
Bonds and notes	-	-	11,143,000	-	11,143,000	10,437,000
Interest	-	-	10,113,364	-	10,113,364	9,299,443
Amortization of property tax advances	27,806,882	-	-	-	27,806,882	31,198,554
Total expenditures	121,881,452	11,694,798	21,256,364	55,081,263	209,913,877	180,467,819
Excess /(deficiency) of revenues over/(under) expenditures before other financing sources/(uses)	(28,917,977)	229,735	(4,599,378)	(45,329,471)	(78,617,091)	(51,073,574)

See accompanying notes to these general purpose financial statements.

(CONTINUES)

MUNICIPALITY OF CAROLINA, PUERTO RICO

COMBINED STATEMENTS OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES
June 30, 2001
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2000)
(CONTINUATION)

	Governmental Fund Types				*Totals (Memorandum only)*	
	General	Special Revenue	Debt Service	Capital Projects	2001	2000
Other financing sources/(uses):						
Advances from property tax	27,806,882	-	-	-	27,806,882	31,198,554
Proceeds from debt issued	-	-	-	37,386,830	37,386,830	30,798,427
Operating transfer-in	8,613,254	-	6,058,753	10,192,050	24,864,057	12,816,759
Operating transfer-out	(13,612,030)	(134,761)	(227,500)	(10,889,766)	(24,864,057)	(12,816,759)
Total other financing sources/(uses)	22,808,106	(134,761)	5,831,253	36,689,114	65,193,712	61,996,981
Excess/(deficiency) of revenues and other financing sources/(uses) over/(under) expenditures	(6,109,871)	94,974	1,231,875	(8,640,357)	(13,423,379)	10,923,406
Fund balances at beginning of year	26,447,273	2,544,080	35,338,033	98,558,416	162,887,802	148,525,111
Prior period adjustment (Note 17)	1,815,503	-	-	-	1,815,503	3,439,285
Fund balances at beginning of year as adjusted	28,262,776	2,544,080	35,338,033	98,558,416	164,703,305	151,964,396
Fund balances at end of year	$ 22,152,905	2,639,054	36,569,908	89,918,059	151,279,926	162,887,802

See accompanying notes to these general purpose financial statements.

MUNICIPALITY OF CAROLINA

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS

BUDGET BASIS
YEAR ENDED JUNE 30, 2001

	GENERAL FUND			DEBT SERVICE FUND		
	Revised Budget	Adjusted Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property tax	$ 39,835,378	39,835,378	-	13,147,868	16,656,986	3,509,118
Volume of business tax	25,931,066	26,294,870	363,804	-	-	-
Licenses and permits	1,747,000	2,361,153	614,153	-	-	-
Property rent	403,523	586,315	182,792	-	-	-
Miscellaneous	9,427,143	1,345,795	(8,081,348)	-	-	-
Intergovermental Services	366,220	295,108	(71,112)	-	-	-
Intergovermental Grant & Others	4,664,816	6,103,592	1,438,776	-	-	-
Interest	7,000,000	9,111,898	2,111,898	-	-	-
Lanfill Revenues	-	29,014	29,014	-	6,058,753	6,058,753
Total Revenues	89,375,146	85,963,123	(3,412,023)	13,147,868	22,715,739	9,567,871
Expenditures						
General government	44,125,253	41,737,129	2,388,124	-	-	-
Public safety	12,609,519	12,199,149	410,370	-	-	-
Highway, streets & Transportation	6,679,049	6,554,213	124,836	-	-	-
Sanitation	5,440,988	5,325,598	115,390	-	-	-
Heath	8,071,753	8,008,864	62,889	-	-	-
Recreation & Sports	6,414,126	5,899,471	514,655	-	-	-
Education & Trainning	4,274,710	3,922,863	351,847	-	-	-
Housing & Building	1,759,748	1,612,795	146,953	-	-	-
Bonds and notes	-	-	-	9,143,000	11,143,000	(2,000,000)
Interest - bonds and notes	-	-	-	4,004,868	10,113,364	(6,108,496)
Total Expenditures	89,375,146	85,260,083	4,115,063	13,147,868	21,256,364	(8,108,496)
Excess of (expenditures) revenues over (revenues) expenditures	$ -	703,040	703,040	-	1,459,375	1,459,375

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENSES AND RETAINED EARNINGS- PROPRIETARY FUND YEAR ENDED JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2000)

	2001	2000
Revenues:		
Rent	$1,126,744	360,353
Interest	1,681,168	1,852,467
	2,807,912	2,212,820
Expenditures:		
Repairs and maintenance	365,891	450,586
Interest	1,576,361	1,682,041
Depreciation	286,548	286,548
Other	140	8,894
Bad debt expense	1,141,770	472,881
	3,370,710	2,900,950
Net loss before transfer-in	(562,798)	(688,131)
Tranfers-in	-	-
Net (loss)	(562,798)	(688,131)
Retained earnings, beginning of the year	2,062,754	2,750,885
Retained earnings, end of year	$1,499,956	2,062,754

See accompanying notes to these general purpose financial statements.

MUNICIPALITY OF CAROLINA, PUERTO RICO
COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2001
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2000)

	2001	2000
Cash Flows from Operating Activities :		
Net (loss)	($562,798)	(688,131)
Adjustments to reconcile net (loss) income to cash provided by operating activities :		
Depreciation	286,548	286,548
Bad Debt Expense	1,141,770	472,881
(Increase) in accounts receivable	(3,051,666)	(107,823)
Decrease in lease payments receivable	486,835	403,572
Decrease in interest receivable	1,577,675	1,635,074
(Decrease) in interest payable	(53,995)	(49,433)
(Decrease) Increase in accounts payable	1,006,640	(116,683)
(Decrease) in deferred interest income	(1,574,080)	(1,636,392)
Total adjustments	(180,274)	887,745
Net cash (used) provided by operating activities	(743,072)	199,614
Cash Flows from investing activities :		
Selling of investments	1,891,520	169,519
Cash flows from financing activities :		
Payment of long term debt	(1,840,510)	(1,098,800)
Net (decrease) in cash and cash equivalents , restricted	(692,062)	(729,667)
Cash and cash equivalents at beginning of year	692,096	1,421,763
Cash and cash equivalents at end of year, restricted	$34	692,096

See accompanying notes to this general purpose financial statements.

MUNICIPALITY OF CAROLINA, PUERTO RICO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP

The Municipality of Carolina (the Municipality) was founded in 1857. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of sixteen assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

Summary of Significant Accounting Policies

The accounting policies of the Municipality conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

A) Reporting Entity

The Municipality's financial statements include the operations of all departments and areas for which the Municipality exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

B) Basis of Presentation - Fund Accounting

The accounts of the Municipality are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Municipality.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

B) Basis of Presentation - Fund Accounting (Continuation)

Governmental Fund Types

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

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

Special Revenue Fund - Special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund - Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by the special revenue fund.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

B) Basis of Presentation - Fund Accounting (Continuation)

Proprietary Fund Type

Enterprise Fund

Enterprise fund is used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise fund of the Municipality includes two long-term capitalized lease buildings known as "Jesús T. Piñero" and "Gustavo Rivera Ayala".

Account Groups

Account Groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the governmental fund types of the Municipality. As indicated in Note 9, at the date of the preparation of these financial statements, the Municipality has not maintained complete and adequate accounting records of its fixed assets.

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

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

C) Basis of Accounting

Governmental Fund Types

The modified accrual basis of accounting is followed by the governmental fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, which is recorded when due, are recorded when the liability is incurred, if measurable.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these 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 recorded. In the other, monies are virtually unrestricted as to purpose of expenditure 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.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

Proprietary Fund

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred. Most of the fund transactions are made through a financing institution.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

D) Encumbrances

Encumbrances accounting is used for the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

E) Budgetary Data

The Municipality follows these procedures, which are in accordance with the municipal law; in establishing the budgetary data reflected in the general purpose financial statements.

(1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.

(2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.

(3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

E) Budgetary Data (Continuation)

(4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year amounted to $19,553,209 are reflected in the budget information included in the general-purpose financial statements.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

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

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

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

E) Budgetary Data (Continuation)

(1) Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under the accounting basis.

(2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the accounting basis.

(3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.

(4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

The necessary adjustments to convert the result of operations of the general fund from the modified accrual basis of accounting to the budgetary basis are as follows:

	General Fund	Debt Service Fund
Accounting per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance	$ (6,109,871)	1,231,875
Adjustments:		
Non-budgeted funds received during the year	(15,613,606)	
Non-budgeted funds expended during the year	22,375,025	
Transfer of funds		227,500

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

E) Budgetary Data (Continuation)

	General Fund	Debt Service Fund
Current year encumbrances recognized as expenditures on the budgetary basis	(3,205,749)	
Prior year encumbrances recognized as expenditures on the accounting basis	3,257,241	
Excess of revenues over Expenditures budgetary basis	$ 703,040	1,459,375

The budget prepared for each of the components of the special revenue and capital project funds is based on a program period, which is not necessarily the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue and capital project funds.

F) Cash and Short-Term 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. Generally, cash in the special revenue and capital project funds are deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

F) Cash and Short-Term Investments (Continuation)

Investments consist of short-term certificates of deposit and are stated at cost, which approximates market value.

G) Inventories

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditure and the inventory is not recorded in the general-purpose financial statements since amount is insignificant.

H) Fixed Assets

The general fixed assets acquired are recorded as expenditures in the governmental funds and is capitalized at cost in the general fixed assets account group. Donated general fixed assets is recorded at their estimated fair market value at the time they are received by the Municipality. As indicated in Note 9, the Municipality has not maintained complete and adequate accounting records for its fixed assets.

Fixed assets included in the proprietary fund are carried at cost. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

H) Fixed Assets (Continuation)

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis (building and medical equipment 50 and 10 years, respectively.)

I) Vacations and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year.

Employees' maximum allowed accumulated vacations, with the employer's share of payroll taxes, are accounted for in the general long-term debt account group.

J) Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

K) Restricted Assets

Investments and Certificates of Deposit-Enterprise Fund

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account". For description of collateral, see Note 1-F.

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of Municipality's debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

L) Reservations of Fund Balance

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

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

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

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

* For equipment and other purposes - Represents net assets legally segregated for acquisition of equipment and other specific future use.

* For loans and grants - Represent net assets available to finance and subsidize other projects.

M) Claims and Judgments

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

(1) GENERAL ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS AND ACCOUNT GROUP (Continuation)

N) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O) Totals Column (Memorandum Only) in the General Purpose Financial Statements

The total data under this column represents the aggregate amount of the different fund types and account groups. No consolidating or other eliminations were made in arriving at these totals; therefore, they do not present consolidated information. Certain account balances were reclassified in the prior year total memorandum column for comparative purposes.

(2) PROPERTY TAXES

The "Centro de Recaudación de Ingresos Municipales" (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Carolina 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 the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

(2) PROPERTY TAXES (Continuation)

The tax rate per annum is 8.33% for real property and 6.33% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to the Municipality. From the portion belonging to the Municipality, 3% represents the Municipality's basic tax rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of 1.5% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See Note 11). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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. Veterans have additional exemption from taxes of $5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of $50,000 is granted to retailers with an annual volume of net sales under $150,000.

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to the Municipality during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

(2) PROPERTY TAXES (Continuation)

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to $2,009,619 during 2001.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2000 and outstanding debt from 2000. The resulting receivable is presented as a deferred revenue in the general fund and the debt has been presented in the long-term debt group of accounts since payment is not anticipated to be paid from current resources.

Account Receivable:	
Advanced received, 7/1/00 - 6/30/01	$ 45,434,062
Amortization through collections of property taxes by the CRIM, 7/1/00-6/30/01	(39,545,253)
Amount due from CRIM-2001	$5,888,809
Long-Term Debt – due to CRIM	$4,381,449

The payment for this outstanding debt, which resulted from prior year advances, will be provided by a special loan approved by Municipal Assembly and to be issued by the Government Development Bank for Puerto Rico.

(3) CASH AND INVESTMENTS

Cash and investments include certificates of deposits amounting to $71,923,341. The Municipality's cash and investments at June 30, 2001 were entirely covered by the Federal Depository Insurance or by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is guaranteed by the Commonwealth of Puerto Rico.

(3) CASH AND INVESTMENTS (Continuation)

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest-bearing bank accounts, and short-term certificates of deposit. At June 30, 2001, the market value of investments approximated its carrying value.

(4) CONCENTRATION OF CREDIT RISK

The Municipality's maintain its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. Deposits in excess of $100,000 are collaterized by the bank securities to property safeguard such funds.

Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

(5) 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 1.5% for financial institutions and savings and loans associations, 0.5% for all other non-financial organizations.

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 5% 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.

The Municipality recognized an account receivable for the estimated municipal license taxes to be collected during the first three months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

(6) INTERFUND TRANSACTIONS

Due From/To Other Funds

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balances are as follows:

Fund	Due From	Due to
General	$ 9,831,145	6,546,202
Special Revenue	1,831,147	3,342,103
Debt Service	101,352	400,432
Capital Project	5,571,334	8,400,644
Enterprise	1,866,993	512,590
	$19,201,971	19,201,971

(7) LOANS AND ACCOUNT RECEIVABLE

a- General Fund

The account receivable, under the general fund, represents principally payments due to the Municipality from the Puerto Rico Department of Health, and a garbage disposal service company.

b- Special Revenue Fund

The Municipality has one outstanding loan under the UDAG Federal Program to stimulate and expand the economy of the Municipality. This loan bears interests at 5% and is due on May 12, 2012. The loan is guaranteed with first mortgage on the property acquired with such funds.

(7) LOANS AND ACCOUNT RECEIVABLE (Continuation)

c- Debt Service Fund

The CRIM has not determined the CAE (Contribución Adicional Especial) property tax for the fiscal years 2000-2001 and 1999-2000. Therefore, the Municipality has estimated such property tax based on prior years experience which actual amount may be different from the estimate.

d- Due From (To) Governmental Agencies

As of June 30, 2001 balances from (due to) governmental agencies of the general fund consists of the following:

Name	Due from	Due to
Centro de Recaudación Ingresos Municipales (CRIM)	$ 8,732,558	-
Treasury Department of Puerto Rico	1,454,965	-
Electric Power Authority	158,403	407,992
Puerto Rico Workmen Compensation State Insurance Fund	-	477,804
Puerto Rico Telephone Company	-	273,389
Water and Sewer Authority	-	109,068
Puerto Rico Retirement System	-	218,980
State Unemployment Insurance Fund	-	147,237
Totals	$10,345,926	1,634,470

The balances of due from governmental agencies were recorded as part of deferred revenues-others as of June 30, 2001.

(8) INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain "quasi-public" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

(9) PROPERTY, PLANT AND EQUIPMENT

The Municipality is organizing its property records to determine the amount invested in general fixed assets. This process requires the identification of all real and personal property through physical inventories and their subsequent valuation. Once this process is completed, the Municipality will determine the correct amount of its investment in general fixed assets recorded in the general fixed assets account group, and included in the general-purpose financial statements. Presently is not practical to determine the correct amount invested in general fixed assets amounting to $112,597,836. Therefore, such amount presented in the financial statements has not been audited.

(10) GENERAL AND CAPITAL PROJECT FUND BALANCES

The Municipality is analyzing and correcting the General and Capital Project fund balances related with the bank reconciliations. Additional adjustments, if any, that might be necessary should the Municipality complete the analysis and correctness of the General and Capital Project fund balances cannot presently be determined. The Municipality objective is to complete this process as soon as possible.

(11) GENERAL LONG-TERM DEBT

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

Balance at June 30, 2000	$146,042,427
Proceeds from new issuance	37,346,843
Less current payments and maturities:	
Bonds $ 7,708,000 Notes $ 3,435,000	(11,143,000)
Balance at June 30, 2001	$172,246,270

(11) GENERAL LONG-TERM DEBT (Continuation)

General Long-Term Debt as of June 30, 2001 consists of the following:

Bonds	
Series of 2001 - $20,120,000 payable in annual installments of $480,000 to $1,805,000 until July 1, 2020 with interest at 7.19%.	$19,640,000
Series of 2000 - $30,285,000 payable in annual installments of $1,020,000 to $2,400,000 until July 1, 2016; with interest at 8%.	28,165,000
Series of 1999 - $23,890,000 payable in annual installments of $280,000 to $1,860,000 until January 1, 2024; with interest at 5.35% to 6.8%.	23,155,000
Series of 1998 - $13,165,000 payable in annual installments of $210,000 to $1,175,000 until July 1, 2020; with interest at 8%.	12,200,000
Series of 1991 - $20,945,000 payable in annual installments of $685,000 to $2,450,000 until July 1, 2005; with interest at 3.263% to 6.313%	8,585,000
Series of 1994 - $7,320,000 payable in annual installments of $270,000 to $790,000 until July 1, 2008; with interest at 5% to 7.606%.	4,455,000
Series of 1993 - $21,260,000 payable in annual installments of $845,000 to $2,450,000 until July 1, 2007; with interest at 5% to 7.506%.	12,090,000

(11) GENERAL LONG-TERM DEBT (Continuation)

Series of 1994 - $2,035,000 payable in annual installments of $75,000 to $220,000 until July 1, 2009; with interest at 6.106% to 7.706%.	1,370,000
Series of 1995 - $11,885,000 payable in annual installments of $440,000 to $1,285,000 until July 1, 2009; with interest at 6.106% to 7.706%.	7,975,000
Series of 1992 - $1,550,000 payable in annual installments of $94,000 to $172,000 until January 1, 2007; with interest at 5.625%.	901,000
Series of 1995 - $16,630,000 payable in annual installments of $250,000 to $1,465,000 until July 1, 2019; with interest at 4.7% to 6.63%.	14,800,000
Series of 1996 - $10,475,000 payable in annual installments of $255,000 to $1,110,000 until July 1, 2015; with interest at 6.580%.	8,985,000
Series of 1997 - $2,370,000 payable in annual installments of $30,000 to $205,000 until July 1, 2022; with interest at 6.690% to 8%.	2,225,000

(11) GENERAL LONG-TERM DEBT (Continuation)

Series of 1980 - $991,000 payable in annual installments of $21,000 to $65,000 until January 1, 2004; with interest at 5%.	195,000
Total General Debt - Bonds	144,741,000

Notes

Municipal Funds

Series of 1986 - $21,000,000 payable in annual installments of $1,050,000 until January 7, 2006; with interest determined based on 936 funds cost of the Government Development Bank of Puerto Rico plus 1.5% after July estimated at 8.5%.	5,250,000
Series of 1998 - $1,785,000 general obligation notes payable in annual installments of $300,000 to $415,000 until July 1, 2002; with interest at 8%.	415,000
Total Municipal Funds	5,665,000

(11) GENERAL LONG-TERM DEBT (Continuation)

Federal Funds

Series of 2001- $14,300,000 Loan guarantee federal program payable in installments of $715,000 to $2,145,000 until August 1,2020 with variable interest rates.	14,300,000
During the fiscal year 2000-2001, the Municipality had issued Bond Anticipation Notes(BAN's)in the amount of $2,926,843 and 513,427 on fiscal year 1999-2000. The Municipality intends to refinance these BAN's on a long-term basis with the Governmental Development Bank of Puerto Rico(GDB), which does not expire within one year from the date of the combined balance sheet. The refinancing will be done by issuing general obligation bonds of $1,248,000, $1,450,000 and $4,000,000.	3,440,270
Series of 1995 - $8,000,000 Loan guarantee federal program payable in installments of $600,000 to $1,200,000 until August 1, 2003 with interest at 5.04% to 8.27%.	4,100,000
Total Federal Funds	21,840,270
Total Notes	27,505,270
Total Debt	$172,246,270

(11) GENERAL LONG-TERM DEBT (Continuation)

The annual requirements to amortize the general long-term bonds and notes at June 30, 2001, including payment of interest are as follows:

Year	Principal	Interests	Total
2002	$10,930,000	10,648,647	21,578,647
2003	11,698,000	11,130,611	22,828,611
2004	14,050,000	10,316,404	24,366,404
2005	12,144,000	9,089,590	21,233,590
2006	10,287,000	8,252,948	18,539,948
2007-2011	37,757,000	31,783,107	69,540,107
2012 and thereafter including Ban's	75,380,270	26,329,865	101,710,135
	$172,246,270	107,551,172	279,797,442

The original loan guarantee notes payable of $22,300,000, with an outstanding balance of $18,400,000, are collateralized with U.S. obligation by a federal financing institution, and real property acquired or to be acquired with these funds

(12) DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligation notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

(12) DEBT SERVICE FUND (Continuation)

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the following:

Property taxes	$15,197,612
Ordinary funds	3,482,841
Capital project fund	2,575,911
	$21,256,364

Expenditures for year 2000-2001 were as follows:

Principal (Note 10)	$11,143,000
Interest	10,113,364
	$21,256,364

(13) REVENUE BOND

In 1991, the Municipality issued $25,000,000 revenue bonds where the Municipality pledges income derived from the acquired properties (Buildings "Jesús T. Piñero" and "Gustavo Rivera Ayala") to pay such debt. Revenue bonds issued were at 9% and debt service requirements to maturity at January 1, 2010 including interest are as follows:

Year	Principal	Interests	Total
2002	$ 669,600	741,551	1,415,151
2003	1,430,950	1,399,349	2,830,299
2004	1,562,600	1,267,623	2,830,223
2005	1,706,450	1,123,868	2,830,318
2006	1,863,500	966,832	2,830,332
2007 and thereafter	9,334,700	1,987,265	11,321,965
	$16,567,800	7,490,488	24,058,288

(14) EMPLOYEE'S RETIREMENT SYSTEM PLAN

Substantially, all of the Municipality's permanent employees are members of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (System), an agent multiple-employer contributory defined benefit retirement system. Retirement and related benefits provided by the System are determined by Act 447, approved May 15, 1951, as amended. The required contributions made by the Municipality were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2001 was approximately $32,060,600 of which $26,996,200 were subject to the System. The annual employer and employees contribution for the year ended June 30, 2001 amounted approximately $2,587,300 and $2,224,300, respectively. Members' contributions are 5.775% for gross salaries up to $6,600 or 8.275% in excess of $6,600 and the Municipality's contributions are 9.275% of gross salary.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN

Eligibility	Pension Benefits
Age 55 and 30 years of service	75% of average highest compensation during any 3 years of credited service
Under 55 and 30 years of service	65% of average highest compensation during any 3 years of credit service

(14) EMPLOYEE'S RETIREMENT SYSTEM PLAN (Continuation)

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

NEW PLAN

Eligibility	Pension Benefits
Age 65 with 10 years of services	1.5% of average compensation during the final 5 years of credited services multiplies by the numbers of years credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The actuarial determined present value of benefits accrued as of July 1, 2000 (latest date available) for the System as a whole, determined through an actuarial valuation performed at such date, amounted to $9.5 billions. The net assets available for benefits at such date were $2.1 billions, resulting in an excess of accrued benefits over net assets (actuarial deficiency) available of $7.4 billions.

(14) EMPLOYEE'S RETIREMENT SYSTEM PLAN (Continuation)

Net assets of the System consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

Investment rate of return per year	8.5%
Salary increases per year	5%
Mortality rates table	GA'51

Additional information on the System is provided in its financial statements, a copy of which can be obtained from The Administrator of the Retirement System Administration, P.O. Box 42003, San Juan, P.R. 00940.

(15) LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2001 were approximately $740,400.

Direct Financing Leases

The Municipality acquired two real properties (See Note 13) on December 16, 1991. One of the properties and a portion of the other have been classified as direct financing leases expiring in eighteen and twenty years, respectively.

These financial leases consist of the following at June 30, 2001:

Total minimum lease payments to be received	$18,773,489
Less unearned interest income	(8,645,575)
Net investment in direct financing leases	$10,127,914

(15) LEASES (Continuation)

The minimum lease payments including interests for each of the five succeeding fiscal years are as follows:

Year	Principal	Interests	Total
2002	561,985	1,498,931	2,060,916
2003	649,484	1,411,432	2,060,916
2004	751,451	1,309,465	2,060,916
2005	925,865	1,187,653	2,113,518
2006	1,096,894	1,037,547	2,134,441
2007 and thereafter	6,142,235	2,200,547	8,342,782
	$10,127,914	8,645,575	18,773,489

(16) CONTINGENCIES AND COMMITMENTS

Contingencies

Legal Claims

The Municipality has been named as a defendant or co-defendant in various lawsuits amounting to approximately $46.7 millions. They primarily relate to accidents and personal injuries, accidents and employee claims of alleged unjustified dismissal or breach of contracts.

The Municipality believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, the Municipality considers that these claims are filed in amounts far greater than those that can be reasonably expected to be agreed on with claimants or awarded by a court. Nonetheless, a reserve of $3,349,437 has been established at June 30, 2001 to cover those legal cases, which attorneys have advised are probable of having an unfavorable outcome. The amount of $200,000, which represents actual obligations under court sentences, was recorded in the general fund, and the amount of $3,149,437, which is not expected to be paid from current resources, was accounted for in the general long-term debt group of accounts.

(16) CONTINGENCIES AND COMMITMENTS (Continuation)

Contingencies (Continuation)

The Municipality, after consultation with legal counselors, is presently unable to predict the outcome or to estimate the amount of any additional liability, and loss, it may have with respect to these claims.

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. During this current fiscal year, the Housing Urban Development (HUD) federal agency disallowed certain expenditures for the program year and the Municipality officials agreed to reimburse approximately $1.6 millions to the federal agency. A payment plan for a four-year period was established. The Municipality will pay $33,560 monthly commencing in January 2002. These monies when paid, will increase the lending line of credit with the federal agency. Other amounts of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

Commitments

The Capital Projects and Special Revenue Funds reflect construction commitments for which the Municipality is obligated to an amount of approximately $8,151,800. These are commitments for the improvements of recreational and cultural facilities and for streets and general developments.

17) PRIOR PERIOD ADJUSTMENTS

General Fund

The current bank account includes certain non-budgeted fund cash balances, which have not been analyzed. Therefore, when differences are determined, they are recorded as an adjustment to the beginning fund balance. This year's difference amounted to $1,815,503 and the amount, if any, that would have been recorded in the current year revenues or expenditures of the general fund, was not practicable to determine (See Note 10.)

(18) CLOSURE AND POST-CLOSURE CARE COST OF LANDFILL

The Municipality owns and operates a solid waste landfill. The state and federal laws and regulations require the Municipality to estimate the total current cost of Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. The Municipality recognized $6,107,300 as the estimated obligation for landfill closure and approximately $200,000 annually for post-closure costs. Actual costs may be higher due to inflation changes in technology or changes in regulations. The amount was reported in the long-term debt account group because it will not be funded with available expendable financial resources at June 30, 2001. The Municipality expects to finance this obligation with the issuance of general obligation bonds.

MUNICIPALITY OF CAROLINA, PUERTO RICO

ADDITIONAL REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133

NIEVES VELAZQUEZ & CO., P.S.C.
Certified Public Accountants and Financial Consultants

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

To the Major of the Municipality of Carolina
Carolina, Puerto Rico

We have audited the general-purpose financial statements of the Municipality of Carolina, Puerto Rico, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and contained in Government Auditing Standards, issued by the Comptroller General of the United States. In our report, our opinion was qualified as explained in the following three paragraphs.

As indicated in Note 10, the Municipality maintains substantial unreconciled differences to agree General and certain program of the capital project fund balances with the related bank reconciliations at June 30, 2001. Because the uncertainty of the correctness of the General and the capital project fund balances, we were unable to determine additional adjustments, if any, that might be necessary to affect the General and capital project fund balances.

As described in Note 17, the Municipality adjusted its beginning fund balance in the amount of $1,815,503 for corrections and other considerations. The adjustment was made against the fund balance of prior years without considering the effect, if any, on the current year's revenues and expenditures of the general fund. Due to lack of information, we were unable to determine the effect, if any, on the 2001 revenues and expenditures of the general fund of the aforementioned adjustment.

As described in Notes 1 and 9, the Municipality has not maintained complete and adequate accounting records of its general fixed assets and, accordingly, we were unable to satisfy ourselves as to the fixed assets balances of such account group amounting to $112,597,836 at June 30, 2001.

421 Muñoz Rivera Avenue, Suite 314, San Juan, Puerto Rico 00919 • Telephone: (787) 250-1712 • Tel/Fax: (787) 250-1713
http://www.nievelaz.com • E- Mail Nievelaz@coqui. net

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

(Continuation)

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Carolina**, general purpose 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 one instances of noncompliance that are required to be reported under Government Auditing Standards. This is described in the accompanying Section II-Financial Statement Findings as item 01-II-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Carolina**, internal control over financial reporting in order to determine our auditing procedures for the purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses 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. We noted one instance involving the internal control over financial reporting and its operation that we did not consider to be a material weakness. This is described in the accompanying Section II-Financial Statement Finding as item 01-II-1.

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

February 12, 2002
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp # 1780257 was affixed to the record copy of this report.

NIEVES VELAZQUEZ & CO., P.S.C.
LIC. NO. 7
PUERTO RICO
Certified Public Accountants

NIEVES VELAZQUEZ & CO., P.S.C.
Certified Public Accountants and Financial Consultants

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

To the Major of the Municipality of Carolina
Carolina, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Carolina, 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, 2001. The Municipality of Carolina, major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality of Carolina, management. Our responsibility is to express an opinion on the Municipality of Carolina, compliance based on our audit.

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

In our opinion, the Municipality of Carolina, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed eight (8) instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Section III-Schedule of Federal Award Findings and Questioned Costs as items 01-III-1, 2, 3, 4, 5, 6, 7 and 8.

421 Muñoz Rivera Avenue, Suite 314, San Juan, Puerto Rico 00919 • Telephone: (787) 250-1712 • Tel/Fax: (787) 250-1713
http://www.nievelaz.com • E- Mail Nievelaz@coqui. net

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

(Continuation)

Internal Control Over Compliance

The management of Municipality of Carolina 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 Municipality of Carolina, internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-III-1, 2, 3, 4, 5, 6, 7 and 8.

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

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Municipality of Carolina as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001. In our report, our opinion was qualified as described in the following three paragraphs.

As described in Note 17, the Municipality adjusted its beginning fund balance in the amount of $1,815,503 for corrections and other considerations. The adjustment was made against the fund balance of prior years without considering the effect, if any, on the current year's revenues and expenditures of the general fund. Due to lack of information, we were unable to determine the effect, if any, on the 2001 revenues and expenditures of the general fund of the aforementioned adjustment.

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

(Continuation)

As indicated in Note10, the Municipality maintains substantial unreconciled differences to agree General and certain programs of the capital project fund balances with the related bank reconciliations at June 30, 2001. Because the uncertainty of the correctness of the General and the capital project fund balances, we were unable to determine additional adjustments, if any, that might be necessary to affect the General and capital project fund balances.

As described in Notes 1 and 9, the Municipality has not maintained complete and adequate accounting records of its general fixed assets and, accordingly, we were unable to satisfy ourselves as to the fixed assets balances of such account group amounting to $112,597,836 at June 30, 2001.

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 OMB Circular A-133 and is not a required part of the general-purpose financial statements of Municipality of Carolina. Such information has been subjected to the auditing procedures applied in the audit of the general purposes 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 for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution in not limited.

Nieves Velázquez & Co., P.S.C.

February 12, 2002
San Juan, Puerto Rico

CPA Stamp # 1780258 was affixed to the record copy of this report.

NIEVES VELAZQUEZ & CO., P.S.C.
LIC. NO. 7
PUERTO RICO
Certified Public Accountants

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through or Grant Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Major Programs:			
Direct Programs:			
Section 8-Rental Certificate Program	14.857	RO-014-CE	$ 464,452
Section 8-Housing Choice Voucher	14.871	RO-014-VO	2,299,978
Community Development Block Grant Program, Entitlement Grants and Loan Guarantee	14.218	MC-72-0005	7,645,709
HOME Investment Partnership Program	14.239	MC-72-0204	1,837,736
Non-Major Programs:			
Direct Programs:			
Emergency Shelter Grant Program (Homeless)	14.231	MC-72-0006	298,532
Pass-Through Municipality of San Juan, Department of Housing:			
Housing Opportunity for Persons with AIDS Program	14.241	PR4H92F022	260,496
Sub-total, carry forward			12,806,903

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title Number	Federal CFDA Number	Pass-through or Grant Identifying	Federal Expenditures
Balance brought forward			$12,806,903
U.S. Department of Health and Human Services			
Major Program:			
Direct Program: Head Start and Early Head Start	93.600	02-CH-0262 02-YC-0303	4,385,959
Non-Major Programs: Pass-Through Puerto Rico Elderly Commission: Special Programs For Aging (Title III, Parts B and C, Nutrition Services)	93.044 93.045	N/AV	77,435
Pass-Through Puerto Rico Family Department: Child Care Development Block Grant	93-575	123-000057	110,998
U.S. Department of Agriculture			
Pass-Through Puerto Rico Department of Education: Child and Adults Care Food Program	10.570	CCC-046	501,367
Non-Major Programs: Direct Program: Community Facilities Loans and Grants	10.766	N/A	2,926,843
Sub-total, carry forward			20,809,505

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through or Grant Identifying Number	Federal Expenditures
Balance brought forward			20,809,505
Pass-Through Puerto Rico Elderly Commission: Nutrition Program for the elderly	10.570	N/A	28,536
U.S. Department of Justice			
Non Major Program:			
Direct Program: Public Safety Partnership and Community Community Oriented Policing Services (COPS): Universal Hiring Program (UHP) COPS	16.710	96-ULWX-0013	138,389
Pass-Through Puerto Rico Department of Justice: Byrne Formula Grant Program (victims of crime act)	16.579	RAMA-VAGX0072	38,469
Total Federal Expenditures			$21,014,899

See accompanying notes to the schedule of expenditures of federal awards.

MUNICIPALITY OF CAROLINA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES FEDERAL AWARDS
For the year ended June 30, 2001

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1. GENERAL

The accompanying Schedule of Federal Financial Awards includes the federal grant activity of the Municipality of Carolina, Puerto Rico. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and Local Government and Non-Profit Organizations. The Municipality of Carolina reporting entity is defined in Note 1 to the general-purpose financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Awards is presented using the modified accrual basis of accounting, which is described in Note 1 (C) to the general-purpose financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The accompanying Schedule of Expenditures of Federal Award is prepared from the Municipality's accounting records and is not intended to present financial position or the results of operations.

B. The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with generally accepted accounting principles.

C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

4. LOANS

Loan Guarantee

The Municipality had loan guarantees outstanding amounting to $18,400,000 at June 30, 2001. The expenditures incurred by loan guarantees were added to CDBG expenditures for purpose of scheduled of federal financial awards (cluster program.)

4. LOANS (Continuation)

Other

During the fiscal year 2000-01, the United States Department of Agriculture approved a $1,360,000 loan and a $3,000,000 grant for Water and Waste Disposal Systems for Rural Communities. A total amount of $2,926,843 was expended of which $2,334,691 was capitalized during the current fiscal year.

5. FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The (CFDA) numbers included in this schedule were determined based on the program name, review of grant contract information and the office of management and Budget's Catalogue of Federal Domestic Assistance. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

6. PASS-THROUGH ENTITY IDENTIFYING

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

7. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

A reconciliation of expenditures reported in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances – all Governmental Fund Types to the Schedule of Expenditures of Federal Awards is as follows:

7. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS (Continuation)

Fund	Federal Programs	Municipal Funds	Totals
Special Revenue	$ 10,442,347	1,387,212	11,829,559
Capital Project	10,572,552	55,398,477	65,971,029
Totals	$ 21,014,899	56,785,689	77,800,588

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Part I - Financial Statements

Type of auditor's report issued, qualified.

Internal control over financial reporting:

* Material weakness(es) identified?	__Yes	X No
* Reportable condition(s) identified that are not considered to be material weaknesses?	X Yes	__No
Noncompliance material to financial statements noted?	__Yes	X No

Part II - Federal Awards

Internal control over major programs:

* Material weakness(es) identified?	__Yes	X No
* Reportable condition(s) identified that are not considered to be material weakness(es)?	X Yes	__No

Type of auditor's report issued on compliance for major programs was: unqualified.

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.857, 14.871	SECTION 8
14.218 (Cluster)	CDBG
93.600	HEAD START
10.558	USDA
14.239	HOME

Dollar threshold used to distinguish between type A and type B programs:	$465,564	
Auditee qualified as low-risk auditee?	X Yes	__No

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start, CDBG, USDA	01-II-1	Accounting Records Criteria and Condition Section 20 of OMB Circular A-102 of the Common Rule, requires adequate accounting records should be maintained for each federal program. On fiscal year 1999 - 00, Municipality of Carolina commenced with a new automated accounting system and it is in the process of making correction to program configurations and correcting certain transactions in the accounting records. Also, for Head Start, USDA and CDBG we found differences among details like payroll, account receivable balances with confirmation received from federal award agency and obligations with their respective control accounts. The Head Start programs owes an undetermined amount to the general fund. In addition, for CDBG we found that the program maintains $17,990 of unidentified payable from prior years. Cause Due to lack of certain incorrect configurations and adequate of proper use of accounting system, there have been differences with payroll records, outstanding obligations, accounts payable and accounts receivable.	

SECTION II - FINANCIAL STATEMENT FINDINGS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start, CDBG, USDA	01-II-1	Accounting Records (Continuation)	

Effect

Duplicate records were made to general fund for reimbursement of payroll. Also, account balances resulting from their respective transactions were far from correct, and late payment on accounts payables, were noted. Alternative accounting procedures were used to obtain the correct account balances.

Recommendations

We recommend prompt correction of accounting system configurations and transactions in the account balances. Also, proper supervision at all levels should be exercised to ensure that proper use of accounting records system in order to keep it in accordance with federal regulations.

Management Comments

They have been coordinating and correcting the configurations with the program consultant. Also, the program coordination has been following up the correctness of transactions with the program's accountants.

The CDBG program's personnel analyzed the difference and made an adjustment in fiscal year 2001-2002 to close account payables due to the fact that in various years payment was not processed.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8	01-III-1	Allowable Costs Principle	
		Criteria and Condition	
		The OMB Circular A-133 (Revised) compliance B, requires that cost charged by the program were according to allowable costs and activities specified on grant approval or program requirements. Section 8 funds must be used for vouchers for participating owners and administrative fees. During our examination we noted that Section 8 has been lending funds amounting $271,193.35 to Hopwa program without authorization from HUD; therefore, the amount is questioned.	$271,193.35
		Cause	
		The Hopwa program is not invoicing nor collecting on time the amount expensed to the grantor.	
		Effect	
		Collection from HOPWA is uncertain because grantor of HOPWA funds does not recognize the entire obligation to the Municipality of Carolina.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8	01-III-1	Allowable Costs Principle (Continuation) Recommendation We recommend that unauthorized program loans should be avoided and invoice the grantor on time. We recommend strong collection efforts from grantor of Hopwa funds to refund Section 8 in order to comply with federal requirements. Management Comments Municipality officials indicated that collection efforts will be made including possible legal actions from Hopwa funds grantor.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8, CDBG, USDA, Head Start	01-III-2	**Cash Management** Criteria and Condition The OMB Circular A-133 (Revised) compliance C, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and program disbursement. Cause For Section 8, due to fiscal year participants reductions, 120 days time is allowed to them for house hunting, low occupancy rate and tenant share of rent caused a highly cash balances in bank. For Head Start, USDA and CDBG the administrative personnel are not following adequately the procedures to minimize the time elapsed between the drawdown of funds disbursements. Head Start has certain amount owed to the general Fund, which is analyzing. Effect The programs are maintaining cash balances in excess of their needs and, therefore, are not complying with program regulations.	-

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8, CDBG, USDA, Head Start	01-III-2	Cash Management (Continuation) Recommendations We recommend more accurate procedures in setting up fiscal year budget, to achieve expected goals. Also, to request budget amendments during fiscal year to avoid excess of cash. More supervision should be exercised to ensure that adequate procedures are maintained to comply with program regulations. Management Comments Management will enforce internal control on procedures payments to avoid high cash balances.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8, USDA, CDBG	01-III-3	Special Test and Provisions Criteria and Condition The OMB Circular A - 133 (Revised) compliance N, requires certain special test and provisions are to be performed to each major federal program. For Section 8 the participant housing agency (PHA) administrative plan must state the method used by the PHA to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. There were not rent reasonable studies for newly units for fiscal year. For USDA, proper internal control over food physical inventory should be performed. There is only one person receiving and distributing the goods. For CDBG, entities must certify to HUD that they have met the Citizen participation requirements and the environmental review record. The Municipality could not locate the citizen Neither participation plan nor the environmental review record for our examination. Cause For CDBG, apparently the citizen participation plan and environmental review record were misplaced. For USDA and Section 8, key personnel are not following all programs regulations.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8, USDA, CDBG	01-III-3	Special Test and Provisions (Continuation) Effect Not in compliance with program regulations. Recommendations We recommend to establish policies and procedures to improve internal controls also, supervision must be exercised to comply with program regulations. Management Comments Section 8, management will enforce internal control procedures to comply with rent reasonable studies. USDA management will assign personnel to increase internal control over food inventory. For CDBG, program's management is sure the citizen participation plan and environmental review record were prepared but, apparently, were misfiled. However, the Environmental Review Record for program year 01-02 was available for examination.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start	01-III-4	Period of Availability of Federal Funds	

Criteria and Condition

The OMB Circular A - 133 (Revised) compliance H, states that the programs may charge allowable costs resulting from obligations incurred during the funding period up to the approved grant amount. In addition, entities should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. During our examination of CDBG funds, we noted that there is a balance of $ 207,956.86 on obligations balances for more than 5 years (1992-1994) since the grant approval. For Head Start program, we found that the accounts payable vendors were not paid within 90 days or an extension was requested.

Cause

The administrative personnel are not following adequately federal regulations related to program requirements. And an extension to pay such obligations beyond allowable time was not available for examination.

Effect

Not in compliance with program regulations and, therefore, the accounts payable could be overstated and fund balance understated.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start	01-III-4	Period of Availability of Federal Funds (Continuation) Recommendations We recommend an analysis of the $207,956.86 payable and that all payments should be made on or before 90 days or an extension requested in order to comply with federal regulations. Management Comments An analysis of the CDBG account payable will be made. Public Hearing were held on March 8, 2002 for the rescheduling of the funds and a detail of them will be send to HUD. For Head Start programs, management requested a waiver to federal agency for accounts payable with more than 90 days to be paid, but it has not been received.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-compliance	Questioned Costs
CDBG, Loan Guarantees	01-III-5	Davis Bacon Act Criteria and Condition The OMB Circular A-133 (Revised) compliance D, requires that on construction contracts over $2,000 contractor and subcontractor must comply with Davis Bacon act. Based on our examination on contracts we noted that some contractors did not comply, in some cases, with required federal prevailing wages rates. Cause Municipality management did not inform the contractors the requirement to comply with federal prevailing wages rates. Also, we noted that not all construction contracts contained a clause indicating to comply with Davis Bacon Act. Effect Contractor may have not complied with prevailing wages rates.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-compliance	Questioned Costs
CDBG, Loan Guarantees	01-III-5	Davis Bacon Act (Continuation) Recommendations We recommend the program officials to comply with the monitoring of the Davis Bacon Act. Also more supervision and technical training to municipal officials should be exercised to ensure compliance with program regulations. Management Comments Agree that it will monitor the contractors more closely to ascertain compliance with the requirements. In addition, communications will be send to the contractors.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-compliance	Questioned Costs
USDA	01-III-6	Earmarking Test	
		Criteria and Condition	
		The OMB Circular A-133 (Revised) compliance G stays that earmarking percentages have to be followed for expenditures. Actually, there is a 65% minimum authorized to be budgeted for commodities. Budget showed 60% allocated for commodities.	-
		Cause	
		The administrative personnel are not reviewing adequately program regulations.	
		Effect	
		Not in compliance with program regulations.	
		Recommendations	
		We recommend to establish policies of cost allocation, to comply program regulations.	
		Management Comments	
		They will review the budgeted amount and adjust it accordingly to comply with the requirements.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start	1-III-7	Equipment Management Criteria and Condition The OMB Circular A - 133 (Revised) compliance F, requires that equipment records should be accurate maintained and physical inventory should be taken a least once every two years. During our examination, we noted that there were not an accurate detail of equipment inventory purchased nor could determine when was the last physical inventory. Cause Due to lack of adequate equipment records, we could not examine the acquisitions and dispositions of equipment and real property for the fiscal year 2000-2001. Effect Not in compliance with program regulations.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start	1-III-7	Equipment Management (Continuation) Recommendations We recommend that more supervision should be exercised to ensure proper records for equipment inventory which should be reconciled with accounting records balances. Also, adequate procedures must be performed for safeguarding of assets. Management Comments For Head Start, management are in the process of taking a physical inventory to be completed by March 2002. For CDBG, Municipality's officials will perform a physical inventory and promptly reconcile the amount with the control account.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start	01-III-8	Reporting Criteria and Condition The OMB Circular A - 133 (Revised) compliance L, requires that certain financial reports need to be submitted periodically to the required federal agency and test information submitted against it's own accounting records. For CDBG and Loan Guarantees funds, (Sec. 108), the Consolidated Annual Performance and Evaluation Report (CAPER) for the year 2000-2001, reflected a difference of $350,726 on total expenditures reported, of which $207, 916 belongs to program administration, in comparison with financial summary reports submitted to the federal agency and accounting records. For Head Start and Early Head Start, the cash transaction report (FSR 272) for the quarter ended Dec. 31, 2000 were sent 53 days after program regulations. Also, for Head Start, the financial status report (FSR-269) for the quarter ended December 31, 2000 was sent 43 days later than program regulations and for Early Head Start the report was not available for examination. In addition, we noted differences between submitted reports to federal agency and municipality accounting records for Head and Early Head Start program year 2000.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start	01-III-8	Reporting (Continuation) Cause A delay on the closing of accounting records was the cause of the late submission of the financial reports required by federal agency. Effect The municipality failed to comply with the reporting requirements of the program. Recommendations The Municipality management should prepare and handle to key personnel, a time table of due dates to comply with compliance L of the OMB C-133. Also, management should verify the financial data on FSR's against accounting records to ensure agreement of the financial data. Management Comments For both programs, management inform that the reports late submission was caused by late closing of the accounting records and a change on recipient address. A proper supervision on accounting personnel will be executed.	

MUNICIPALITY OF CAROLINA, PUERTO RICO
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

For all prior year findings and questioned cots the Municipality has filed The Corrective Action Plan on letters dated March 29, 2001; March 15, 2000; July 1, 1999 and July 31, 1998 for the fiscal years 1999-00, 1998-99, 1997-98 and 1996-97 respectively.

During the current audit, we inquired about the status of the prior year's audit findings and questioned costs, communicated to the Municipality of Carolina. It was noted that corrective action has been taken, except for certain conditions that still exists.

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/00	Section 8, Head Start	00-II-1	Accounts Payable Over 90 days The programs have not been paying the obligations within the 90 days after the year-end closing.	Situation still prevails except for Section 8 program.
	COPS, Head Start and HOME	00-II-2	Accounting Records For COPS and Head Start, the Municipality has not maintained adequate accounting records. For HOME, we noted a $246,801 difference between the accounting records and confirmation received from the federal agency.	For COPS, grant ended on February 2001. For HOME, Municipality officials reconciled the receivable balance with federal agency. For Head Start the Municipality is in the process of corrective action; however, the situation still prevails.

MUNICIPALITY OF CAROLINA, PUERTO RICO
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/00	Section 8, Head Start, COPS and CDBG.	00-III-1	Reporting Financial Reports submitted after due date required by federal agency. In addition, for CDBG the Consolidated Annual & Evaluation Performance Report (CAPER) reflected a difference with accounting records of $344,535.	For Section 8 corrective action was implemented. For Head Start, situation still prevail. For COPS no finding on this for 2001, grant ended on February 2001. For CDBG, Finding was cleared by federal agency.
	CDBG, Head Start	00-III-2	Cash Management Time elapsed between draw downs of funds and disbursements were not in accordance with federal regulation.	Situation still prevails.
	Head Start, Section 8, CDBG and HOME	00-III-3	Equipment and Real Property Management Municipality did not have an accurate inventory purchased with federal funds.	For Head Start and CDBG, Municipality performed a physical inventory and is in the process to reconciled with accounting records; however, the situation still prevail. For Section 8 and HOME the corrective action were implemented.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/00	Head Start	00-III-4	Procurement No evidence of free competitive proposals were found on an improvement construction contract of $334,925 where $83,731 were questioned.	Situation still prevails. The Municipality will file a legal action against the contractor.
	Head Start	00-III-5	Unallowable Costs Disbursement amounting $57,340 for administrative office rent without grant approved amount was questioned.	Situation still prevails.
	HOME	00-III-6	Eligibility Test Documents were not on file or available for examination to ascertain the eligibility requirements on participants for "Portales de Carolina" housing project.	Municipality made a final agreement with HUD and reimbursed approximately $1.6 millions in February 2002.
	HOME	00-III-7	Davis Bacon Act No evidence that constructor complies with required and prevailing rates were found on construction contracts.	Finding was cleared by federal agency.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/99	CDBG, Section 8, Head Start	99-II-1	Accounts Payable Over 90 days The programs have not been paying the obligations incurred under the award within 90 days after the year end closing.	Situation still prevails except for CDBG and Section 8.
	FEMA, COPS	99-II-2	Accounting Records For COPS and FEMA, the Municipality have not maintained adequate accounting records	For FEMA, situation still prevails; however, federal agency unobligated authorized fund on July 2001. For COPS, situation still prevail; however the grant ended in February 2001.
	CDBG	99-II-3	Program Income In " Las Villas " program income, the account receivable balance of $22,331 are the same as prior years and no evidence of collecting procedures were noted.	Situation still prevails. Legal actions will be filed before the Court.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/99	Head Start, COPS, Section 8, FEMA	99-III-1	Reporting Financial reports submitted after due dates required by federal agency.	For Head Start, situation still prevail. For COPS, corrective action were implemented on fiscal year 2000-01; grant ended on February 2001. For Section 8, corrective actions were implemented on fiscal year 2000-01. For FEMA, federal agency unobligated funds approved on July 2001.
	CDBG	99-III-2	Cash Management Time elapsed between draw downs of funds and disbursements were not in accordance with federal regulation.	Situation still prevails.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/99	Head Start	99-III-3	Special Test Municipality failed in comply with the fire department licenses for period ended on 06/30/99.	The Municipality implemented corrective action and for fiscal year 2000-01, obtained all licenses.
	Head Start, Section 8 and CDBG	99-III-4	Equipment and Real Property Management Municipality did not have an accurate inventory of the program fixed assets.	For Head Start and CDBG, Municipality performed a physical inventory and is in the process to reconcile with accounting records. For Section 8 the corrective action was implemented.
	Head Start	99-III-5	Procurement Administrative conditions were noted on procurement procedures were not according with federal regulations.	Situation still prevails; however, no finding was reported for fiscal year 2000-01.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/99	Section 8	99-III-6	Eligibility Test Documents were not on file or not available for examination to ascertain eligibility requirements on participants.	Situation still prevails; however, corrective action were implanted and no findings were reported on fiscal years 2000-01 and 1999-00.
06/30/98	Section 8	98-1	Accounts Payable Over 90 days The Municipality has not been paying the obligations incurred under the award within the 90 days after the year end closing.	Corrective actions were implanted by Municipality officials for fiscal year 2000-01.
	Section 8, COPS CDBG	98-2 98-3 98-4	Accounting Records For COPS ,the Municipality does not maintain adequate accounting records. For Section 8, we noted a difference between accounting records and disbursement register of $22,990 on Housing Assistance Payments (HAP). For CDBG the accounts payable subsidiary ledger is not reconciled with the general ledger control account. Also, difference on receivable balance on books and confirmation received were noted.	For Section 8, finding was cleared by federal agency. For COPS, situation still prevails, federal award ended in February 2001. For CDBG, corrective actions were implemented.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/98	HOME	98-5	Unallowable Cost Two disbursement vouchers amounting $89,822 could not be examined to determine its allowability. The $89,822 were questioned.	Amount reimbursed to federal agency on 12/14/99.
	HOME	98-6	Eligibility Test Documents were not on file or available for examination to ascertain the eligibility requirements on participants for "Portales de Carolina" housing project.	Municipality made a final agreement with HUD and reimbursed approximately $1.6 millions in February 2002.
	Section 8 and CDBG	98-7	Reporting Financial reports submitted after due dates required by federal agency.	For Section 8 corrective actions were implemented. For CDBG, situation still prevails.
	COPS	98-8	Cash Management Time elapsed between Drawdowns of funds and disbursements were not in accordance with federal regulation. In addition, programs officials duplicated by error a request of fund of $160,750 at June 30, 1998.	Corrective actions were implemented by Municipality's officials. Federal agency adjusted this amount from last request of funds, grant ended in February 2001.

GOBIERNO MUNICIPAL AUTONOMO DE CAROLINA

Oficina del Alcalde

GOBIERNO MUNICIPAL AUTONOMO DE CAROLINA

OFIC. DEL COMISIONADO DE ASUNTOS MUNICIPALES
02 APR -2 AM 8:34
RECIBIDO
UNIDAD DE CORREO

Cont# 402-5756

March 27, 2002

Bureau of the Census
Single Audit Clearinghouse
1201 E. 10th . St.
Jefferson Ville, IN 47132

RE: **Single Audit for the year ended June 30, 2001**
Municipality of Carolina, Puerto Rico

Required by the Single Audit Act of 1984, as amended, enclosed find audit package for the Single Audit year ended on June 30, 2001. The following documents are included:

a. Data Collection Form
b. Five (5) copies of the Single Audit Report, including the schedule of Federal Awards prepared by the external auditors.
c. Current year Corrective Action Plan.

If you have any question or need further information, please call Mr. Héctor López Irizarry, Internal Auditor at (787) 757-2626.

Cordially ,

Rosa Bell Bayron
Acting Mayor

CAROLINA
TIERRA DE GIGANTES

COMMONWEALTH OF PUERTO RICO
Autonomous Municipality of Carolina
Single Audit for the period ending June 30, 2001
Corrective Action Plan

EXECUTIVE SUMMARY

About the Single Audit

The Autonomous Municipality of Carolina ("Municipality") participates in a series of federal financial assistance programs to address the necessities of it growing population of more than 200,000 residents. These programs have been audited according to the Single Audit Act of 1994, as amended, and the US Office of Management and Budget (OMB) Circular A-133. The Municipality has the following major and non-major programs to assist the needs of low-income and moderate-income citizens according to the federal grantors.

Federal Grantor

US Department of Housing and Urban Development

- Community Development Block Grant (CDBG)
- Section 8
- Housing Opportunities for Persons with Aids (HOPWA)
- HOME Investment Partnership Program
- Emergency Shelter Grant (ESG)

US Department of Health and Human Servces

- Head Start and Early Head Start
- Special Program for Aging
- Infant Center Child Care

US Department of Agriculture

- Nutrition Program for Eldery
- Child and Adults Care

US Department of Justice

- RAMA

These progams were audited by Nieves Velázquez & Co.,P.S.C. an independent firm of certified public accountants. The audit is a requirement described in the OMB Circular A-133 that are applicable to each of the major federal programs for the year ended June 30, 2001.

The audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. Auditors, examined on a test basis, evidence about the Municipal's compliance with those requirements. According to the Summary of Auditor's Results, the internal controls over the major programs did not identify material weakness.

In their examination, the auditors have detected some findings, which were discussed with the corresponding program officials. The Municipality has made the proper corrective action plan in order to comply with the recommendations of auditors and with federal regulations and procedures.

Development of the Single Audit

The audit of the programs followed various steps to obtain proper responses from the Municipality Management.

1. External auditors examined selected programs and cases at random to identify if the Municipality had complied with federal statute and regulations and had made correct use of funds according to norms, regulations and accepted accounting principles.

1. Information and data was requested to Municipality officials to sustain the different accounting transactions, fund balances and allocations.

2. A preliminary draft containing the supposed findings was remitted to the program officials for a management response.

3. After receiving a management response an alleged findings, auditors cleared our unheld the findings. A management draft of findings was remitted tomunicipal officers.

4. Municipal officers met with auditors to discuss finding and elaborated a management response.

5. The audit report, management response and corrective action plan are sumitted to federal authorities.

Corrective Action Plan

The Municipality has made a great effort to compliance with federal regulations. In order to comply with these programs the Municipality has the challenge to continue improvement the internal controls for the compliance with the regulations and laws.

Comments to the Single Audit for the year ended in June 30, 2001

The Municipality has made a corrective action plan for the single audit of the year ended on June 30, 2001. Enclose find the corrective action plan consisting of findings, management response and corrective action plan.

Data Collection Form for Reporting on

AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

RETURN TO: Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132

Form SF-SAC(3-20-2001) OMB #0348-0057 Report ID : 33974 3/26/02

Part I: GENERAL INFORMATION

1. Fiscal year ending date for this submission (mm/dd/yyyy)
06/30/2001

2. Type of A-133 audit
◉ Single audit

3. Audit period covered
◉ Annual

CENSUS USE ONLY

4. Date received by clearinghouse

5. Employer Identification Number (EIN)
a. Auditee EIN 660433539

b. Are multiple EINS covered in this report?
◉ No

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF CAROLINA

b. Auditee address *(Number and street)*
P O BOX 8

City
CAROLINA

State PR Zip Code 00986 - 0008

c. Auditee contact
Name
MR. EDWIN LEBRON

Title
BUDGET AND FINANCE DIRECTOR

d. Auditee contact telephone
(787) 757 - 2626

e. Auditee contact FAX *(Optional)*
(787) 762 - 7999

f. Auditee contact E-mail *(Optional)*

7. AUDITOR INFORMATION

a. Auditor name
NIEVES VELAZQUEZ & CO., P.S.C.

b. Auditor address *(Number and street)*
421 MUÑOZ RIVERA AVENUE SUITE 314

City
SAN JUAN

State PR Zip Code 00919 -

c. Auditor contact
Name
JORGE NIEVES VELAZQUEZ CPA

Title
PRESIDENT

d. Auditor contact telephone
(787) 250 - 1712

e. Auditor contact FAX *(Optional)*
(787) 250 - 1713

f. Auditor contact E-mail *(Optional)*
NIEVELAZ@COQUI.NET

g. **AUDITEE CERTIFICATION STATEMENT** -This is to certify that, to the best of my knowledge and belief, the auditee has:(1)Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, items 1 and 3; (2)the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and,(3)the information included in **Parts I,II,and III** of this data collection form is accurate and complete.I declare that the foregoing is true and correct.

Signature of certifying official Date 03 / 27 / 02

Name/Title of certifying official
EDWIN LEBRON GONZALEZ

g. **AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circlular A-133.The information included in Parts II and III of the form, except for Part III, Items 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The Auditor has not performed any auditing procedures since the date of the auditor's report (s). A copy of the reporting package required by OMB Circular A-133,which includes the complete auditor's report (s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor Date
Nieves Velázquez & Co., P.S.C. 03/25/2002

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 33974

Part I: GENERAL INFORMATION - Continued

8.Did the auditee expend more than $25,000,000 in Federal awards during the fiscal year? *(Mark (x) one box)*

◉ No - **SKIP to Part II, Item 1**

9.Indicate which **Federal** awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (x) one box) *However, if cognizance has been reassigned, see instructions*

Part II: FINANCIAL STATEMENTS ***(To be completed by auditor)***

1.Type of audit report *(Mark (x) one box)*

◉ Qualified opinion

2.Is a "going concern" explanatory paragraph included in the audit report?

◉ No

3.Is a reportable condition disclosed?

◉ Yes

4.Is any reportable condition reported as a material weakness?

◉ No

5.Is a material noncompliance disclosed?

◉ No

Part III: FEDERAL PROGRAMS ***(To be completed by auditor)***

1.Type of audit report on major program compliance

☑ Unqualified opinion

2.Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than $300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)

◉ No

3.What is the dollar threshold to distinguish Type A and Type B programs? (§ _.520(b)) Round to the nearest dollar.
$465564.00

4.Did the auditee qualify as a low-risk auditee? (§_.530)

◉ Yes

5.Is a reportable condition disclosed for any major program? (§_.510(a)(1))

◉ Yes

6.Is any reportable condition reported as a material weakness? (§_.510(a)(1))

◉ No

7.Are any known questioned costs reported? (§_.510(a)(3) or (4))

◉ Yes

8.Was a Summary Schedule of Prior Audit Findings prepared? (§_.315(b))

◉ Yes

9.Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to **direct** funding. *(Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.*

10	☑	Department of Agriculture
93	☑	Department of Health and Human Services
14	☑	Department of Housing and Urban Development
16	☑	Department of Justice

In addition, one copy each of the reporting package is required for:

1 .....the Federal Audit Clearinghouse archives

0 .....and, if not marked above, the cognizant agency (if identified in PartI, Item 9)

5 .....Total number of reporting packages to be submitted

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 33974

Part III: FEDERAL PROGRAMS Continued

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS	
Row	10a. CFDA Number: Federal Agency Prefix (1) / Extension (2)	10b. Research and development	10c. Name of Federal Program	10d. Amount expended in Whole Numbers	10e. Direct Award	10f. Major program	11a. Type of compliance requirement (3)	11b. Audit finding reference #(s) (4)
1	14. 218	☑ N	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANTS	$ 7645709 .00	☑ Y	☑ Y	CNHDFL	01-II-1,01-III-2,3,4,5,7 AND 8
2	14. 871	☑ N	SECTION 8 HOUSING CHOICE VOUCHER	$ 2299978 .00	☑ Y	☑ Y	BCN	01-III-1,2 AND 3
3	14. 857	☑ N	SECTION 8 RENTAL CERTIFICATE PROGRAM	$ 464452 .00	☑ Y	☑ Y	BCN	01-III-1,2,3
4	14. 241	☑ N	HOUSING OPPORTUNITIES PERSONS WITH AIDS	$ 260496 .00	☑ N	☑ N	O	N/A
5	14. 239	☑ N	HOME INVESTMENT PARTNERSHIP PROGRAM	$ 1837736 .00	☑ Y	☑ Y	O	N/A
6	14. 231	☑ N	EMERGENCY SHELTER GRANT PROGRAM (HOMELESS)	$ 298532 .00	☑ Y	☑ N	O	N/A
7	93. 600	☑ N	HEAD START AND EARLY HEAD START	$ 4385959 .00	☑ Y	☑ Y	CHFL	01-II-1,01-III-2,4,7 AND 8
8	93. 045	☑ N	SPECIAL PROGRAM FOR THE AGING TITLE III-B	$ 77435 .00	☑ N	☑ N	O	N/A
9	93. 575	☑ N	CHILD CARE DEVELOPMENT BLOCK GRANT	$ 110998 .00	☑ N	☑ N	O	N/A
10	10. 766	☑ N	COMMUNITY FACILITIES LOANS AND GRANTS	$ 2926843 .00	☑ Y	☑ N	O	N/A
11	10. 570	☑ N	NUTRITION PROGRAM FOR ELDERLY	$ 28536 .00	☑ N	☑ N	O	N/A
12	10. 558	☑ N	CHILD AND ADULTS CARE FOOD PROGRAM	$ 501367 .00	☑ N	☑ Y	CNG	01-II-1,01-III-2,3 AND 6
13	16. 710	☑ N	PUBLIC SAFETY AND PARTNERSHIP AND COMMUNITY	$ 138389 .00	☑ Y	☑ N	O	N/A
14	16. 579	☑ N	BYRNE FORMULA GRANT PROGRAM (VICTIMS OF CRIME ACT)	$ 38469 .00	☑ N	☑ N	O	N/A
	Computer Generated Total Federal Awards Expended:		$ 21014899					
	TOTAL FEDERAL AWARDS EXPENDED		$21014899					

*Footnotes for Part 3 - Item 10 and Item 11

1. See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

2. Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available.

3. Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weakness), questioned costs, fraud, and other items reported under §_.510 (a)) reported for each Federal program.

A. Activities allowed or unallowed
B. Allowable costs/cost principles
C. Cash management
D. Davis-Bacon Act
E. Eligibility
G. Matching, level of effort, earmarking
H. Period of availability of funds
I. Procurement
J. Program income
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2001
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
01-II-1 Accounting Records: Municipality of Carolina commenced with a new automated accounting system and it is in the process of making correction to program configurations and correcting certain transaction in the accounting records.	They have been coordinating and correcting the configurations with the program consultant. Also, the program coordination has been following up the correctness of transactions with the program's accountants.	They are going to improve the procedure for the configuration and correction of the system.
Head Start programs owes an undetermined amount to the general fund. CDBG maintains $17,990 of unidentified payables form prior years.	The CDBG program's personnel are analyzing the differences to make the proper adjusting entries.	Instruction were given Ms. Lizette Toledo, Accounting Supervisor , to analyze and determine the amount owed to the general fund and proceed to made the payment. The accounts were identified and cancel with the Journal Voucher 01-7-07.
01-III-1 Allowable Costs Principle During our examination we noted that Section 8 has been lending funds amounting $271,193.35 to Hopwa program without authorization from HUD; therefore, the amount is questioned.	Municipality officials indicated that collection efforts will be made including possible legal action from Hopwa funds grantor.	A written communication was send to Municipality of San Juan in request of the $271,193.35 owed to Hopwa program in Carolina.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2001
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
01-III-2 Cash Management: For Head Start, USDA and CDBG the administrative personnel are not following adequately the procedures to minimize the time elapsed between the drawdown of funds disbursements. Head Start has certain amount owed to the general Fund which is analyzing. For Section 8 kept highly cash balance in bank.	For USDA , Head Start and Section 8 management will enforce internal control procedures and will improve CDBG payment procedure to avoid high cash balance.	They are going to improve the internal control and payment procedure. Instruction were given to the accounting personnel to analyze the budget and make the amendment necessary to avoid high cash balances. The Municipality Official's is revising Section 8 budget on a monthly basis to ensure that this situation does not occur again. It will make the necessary amendment to the budget in order to adjust the amount of money not used in the period of time required.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2001
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
01-III-3 Special Test and Provisions: For Section 8, there were not rent reasonable studies for newly units for fiscal year.	Section 8, management will enforce internal control procedures to comply with rent reasonabless studies.	The Department of Housing granted full responsibility to the Department's inspector regarding completion of rent reasonable studies. Also, the department's financial division has instruction no to issue any payments if the participant's record does not contain all the required documents. This procedure has been included as part of the regular process for Section 8 Program.
For USDA, proper internal control over food physical inventory should be performed.	USDA management will assign personnel to increase internal control over food inventory.	Instruction were given to the Food Coordinator to assign the personnel to maintain the food inventory and another personnel to receive it.
For CDBG, entities must certify to HUD that they have met the Citizen participation requirements and the environmental review record.	CDBG, program's management is sure the citizen participation plan and environmental review record were prepared, but was misfiled.	Instruction were given to the CDBG consultant to prepare the Citizen Participation Plan and the Environmental Review Record.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2001
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
01-III-4 Period of Availability of Federal Funds:		
During our examination of CDBG funds, we noted that there is a balances of $207,956.86 on obligations balances for more than 5 years (1992-1994) since the grant approval.	An analysis of the CDBG accounts payable will be made.	The Municipality Official is in the process of requesting the re-programation of this funds.
For Head Start program, we found that the accounts payable vendors were not paid within 90 days or an extension was requested.	Management requested a waiver to federal agency for accounts payable with more than 90 days to be paid, but it has not been received.	Waiver was solicited on March 15 ,2001 and was approved on March 17, 2001.
01-III-5 Davis Bacon Act:		
Based on our examination on contracts we noted that some contractors did not comply, in some cases, with required federal prevailing wages rates.	Agree that it will monitor the contractors more closely to ascertain compliance with the requirements.	Contracts will include the Davis Bacon Act to ensure the compliance with this regulation. Nevertheless the Equal Opportunity Office submitted evidence of its complianced.

Municipality of Carolina
nancial Statements Findings
Single Audit for the year ended June 30 2001
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
01-III-6 Earmarking Test: There is a 65% minimum authorized to be budgeted for commodities. Budget showed 60% allocated for commodities.	They will review the budgeted amount and adjust it accordingly to comply with the requirements.	The municipality official's are reviewing the budget and making the adjustment accordingly to comply with the requirements.
01-III-7 Equipment Management: During our examination, we noted that there were not an accurate detail of equipment inventory purchased nor could determine when was the last physical inventory.	For Head Start, management are in the process of taking a physical inventory to be completed by March 2002. For CDBG, Municipality's officials will perform physical inventory and promptly reconcile the amount with the control account.	Head Start, management are taking a physical inventory to be completed by the end of March 2002. The Municipality's officials is performing a physical inventory and promptly reconciling the amount with the control account.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2001
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
01-III- 8 Reporting: For CDBG and Loan Guarantees funds (Sec.108), the Consolidated Annual Performance and Evaluation Report (CAPER) for the years 2000-2001, reflected a difference of $350,726 on a total expenditures reported, of which $207,916 belongs to program administration, in comparison with financial summary reports submitted to the federal agency and accounting records.	For both programs, management inform that the reports late submission was caused by late closing of the accounting records and change on recipient address. A proper supervision on accounting personnel will be executed.	The accounts has been analyzed and it was determined that the difference was account payable that were not included in the CAPER. The necessary adjustment will be made.
For Head Start and Early Head Start , the financial status report (FSR 272) and FSR 269 for the quarter ended on Dec. 31 2000 were submitted 53 and 43 days later. In addition, we noted differences between submitted reports to federal agency and the municipality accounting records for Head Start and Early Head Start program year 2000.		Instruction were given to the accounting personnel to prepared the (FSR 272) and (FSR 269) on time.