OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CAROLINA
AUDITORIA 2001-02

30 DE JUNIO DE 2002

MUNICIPALITY OF CAROLINA
CAROLINA, PUERTO RICO

FINANCIAL STATEMENTS WITH THE INDEPENDENT AUDITOR'S REPORT THEREON

JUNE 30, 2002

MUNICIPALITY OF CAROLINA
COMMONWEALTH OF PUERTO RICO
CAROLINA, PUERTO RICO

BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

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MUNICIPALITY OF CAROLINA
COMMONWEALTH OF PUERTO RICO
CAROLINA, PUERTO RICO

SINGLE AUDIT REPORT AND FINANCIAL STATEMENTS
JUNE 30, 2002

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ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL AUTONOMO DE CAROLINA
APARTADO 8, CAROLINA, PUERTO RICO 00986-0008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fiscal year 2001-2002 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statement also support our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality Primary Government exceeded its liabilities at the close of the current fiscal year by $ 170.7 millions (net assets). Of this amount $ 23.1 millions are unrestricted .Net assets may be used to meet the Municipality's current operations.

- The adjusted actual of the General Fund operations resulted in a favorable variance of $3.4 millions as compared to the revised budget.

- As June 30,2002 the Municipality's General Fund (the primary operating fund) reported a fund balance of $ 36.4 millions, an increase of $14.3 millions in comparison with the prior year.

- Of the total unrestricted cash of $82,851,702 there was investment in certificates of the deposit amounting to $78,118,943.

- Loans principal payments were $11 millions during fiscal year 2001-02. Loan proceeds from new debt issued amounted to $2 millions during the same fiscal year.

- An excess of the Debt Service fund balance was determined of which $9.millions were transferred to the General Fund. This explains the excess of expenditures over revenues of the Debt Service Fund.

- Due to the continuous increase of financial resources Municipal Legislature revised the Municipality Budget several times increasing the original budget by $21,522,608. The total revised budget amounted to $224,223, 058.

- The Municipality was able to complete the Roberto Clemente Stadium

Carolina culmina el siglo con Impulso Gigante

- The Municipality is owner a piece of land of 31,451 square meters (8 cdas) for the construction of Carolina Convention, Exhibition & Marketing Center.

New Requirements for the Financial Reporting

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows users to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior years data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

Financial Statements Components

The basic financial statements consist of government wide financial statements, the major individual funds financial statements, and notes to the financial statements that provides more details.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most privet sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal license tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of these services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statement provides a detailed short-term view of the Municipality's general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. The infrastructure portion was deferred to be implemented when ready to address the modified approach, but no later than the 2005-06 dead line. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement requires that this assets be valuated and reported within the Governmental column of the Governmental-Wide Statements. Additionally, the government must elect to either depreciate these assets over theirs estimated useful life or develop a system of asset management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

Government -Wide Statement

Statement of Net Assets

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government, assets exceeded liabilities by $ 170.7 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

Statement of Net Assets
As of June 30, 2002

Current and other assets	**$ 197,902,213**
Capital Assets	**225,024,154**
Total assets	**422,926,367**
Current and other liabilities	**87,787,391**
Long-term liabilities	**164,437,808**
Total liabilities	**252,225,199**
Net assets:	
Invested in capital assets, net related debt	**49,128,260**
Restricted	**98,447,824**
Unrestricted	**23,125,084**
Total Net assets	**$ 170,701,168**

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. Such amount will increase as the infrastructure assets are identified and included in the financial statements.

Statement of Activities

The following reflects the condensed Statement of Activities of the Primary Government:

Statement of Activities
For the year ended June 30, 2002

General Revenues	**$ 122,081,985**
Program Revenue	**18,021,226**
Enterprise	**4,337,572**
Total Revenue	**144,440,783**
Expenses	
Governmental Activities	**121,966,526**
Enterprise	**891,591**
Total Expenses	**122,858,117**
Change in Net Assets	**$ 21,582,666**

The most significant changes in this statement were as follows:

- Total revenues increased by approximately $14 millions as compared to prior year. This includes increase in the property taxes and gross volume of business by $18 millions and $2 millions, respectively.

- There was also an increase in the enterprise fund revenues by approximately $2 millions due to the reacquirement of the Gustavo Rivera Ayala building.

- The reduction in the governmental activities expenses was mainly due to the substantial completion of the Roberto Clemente Baseball Stadium in prior year, which amounted to approximately $48 millions.

Governmental Funds

As the end of the current fiscal year, Municipality's governmental funds reported a combined fund balance of $139,429,665 that is below last year for $11,849,611. The primary reason for the government fund's decrease in the current year was an use of $15,379,710 in the capital projects Fund and a Transfer of $9,000,000 to the Debt Service Fund The General Fund experienced a **$14,942,316** increase from a fund balance of **$21,436,551** in the previous year and, therefore, the budget was revised to **$36,378,867** at the end of the current year.

Economic Factors and Next Year Budget

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

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

The municipality has a wide industrial base which include the International Airport, hotels, large pharmaceuticals, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has increased substantially during the most recent years.

The Municipality's Budget for fiscal year 2002-2003 for $206,596,280 is $5.6 millions over last fiscal year (2001-2002). Amounts available for appropriations (revenues) in the General Fund Budget are $78.9 millions, an increase of $.4millions over the 2001-02original budget of $ 78.5 millions.

Contacting the municipality's Financial Management

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.

Edwin Lebrón González
Finance Director

NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Governmental Activities, Business Type Activities, the aggregate discretely presented component unit, each major fund and the remaining fund information of the **Municipality of Carolina**, Puerto Rico, as of and for the year ended June 30, 2002, which collectively comprise the **Municipality of Carolina** basic financial statements as listed in the accompanying Table of Contents. These financial statements are the responsibility of the Municipality's Management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following two 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 the Government Auditing Standards, issued by the Controller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Notes 10 and 18 to the Financial Statements, **the Municipality** adjusted its beginning general fund balance in the amount of $716,354 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 operation of the general fund. Due to lack of information, **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, 2002. Because the uncertainty of the correctness of the general and the capital project fund balances, we were unable to determine the effect, if any, on the 2002 operations.

As described in note 9 to the Financial Statements, **the Municipality** has substantially completed the process of identifying and valuing the investment in general capital assets. However, some differences have been identified when compared to the accounting records and are being corrected. Were unable to satisfy ourselves about the correctness of such general capital assets balance at June 30, 2002.

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INDEPENDENT AUDITOR'S REPORT
(Continuation)

In our opinion except for the effects, if any, on the uncertainty to determine the effect, of banks reconciliation, on general and capital project fund balances 2002 operations, as described in the third paragraph and the differences among investment in general capital assets and accounting records that are being corrected on the governmental activities a described in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general and capital projects fund and governmental activities of the **Municipality of Carolina**, Puerto Rico, as of June 30, 2002, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the business type activities, the aggregate discretely presented component units, economic development, debt service and the aggregate remaining fund information of the **Municipality of Carolina**, Puerto Rico, as June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Debt Service Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the **Municipality of Carolina** adopted the provisions of Governmental Accounting Standard Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*; as of and for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

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

Nieves Velázquez & Co., P.S.C.

December 20, 2002
San Juan, Puerto Rico

CPA Stamp # 1780319 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
STATEMENT OF NET ASSETS
JUNE 30, 2002

Assets		Primary Government: Governmental Activities	Primary Government: Business Type Activities	Primary Government: Totals Primary Government	Component Unit	Totals Reporting Entity
Current assets:						
Cash, including certificates of deposits of $78,118,943	$	82,851,702	135,972	82,987,674	137,239	83,124,913
Receivables:						
Loans and accounts, net		4,454,029	1,763,250	6,217,279	23,008	6,240,287
Interest		331,129	-	331,129	-	331,129
Other governmental entities		8,109,897	-	8,109,897	-	8,109,897
Federal government / Pass-through grantor		3,172,591	-	3,172,591	2,441,188	5,613,779
Direct financing lease		-	438,843	438,843	-	438,843
Total current assets		98,919,348	2,338,065	101,257,413	2,601,435	103,858,848
Noncurrent assets:						
Restricted assets:						
Cash with fiscal agent		96,644,800	-	96,644,800	-	96,644,800
Direct financing lease, net of unearned interest of $6,176,959		-	6,786,658	6,786,658	-	6,786,658
Capital assets:						
Nondepreciable assets:						
Land and construction in progress		69,711,151	2,844,000	72,555,151	-	72,555,151
Infrastructure		11,662,074	-	11,662,074	-	11,662,074
Depreciable assets:						
Buildings, equipment and other, net		122,616,929	11,403,342	134,020,271	785,829	134,806,100
Total capital assets		203,990,154	14,247,342	218,237,496	785,829	219,023,325
Total noncurrent assets		300,634,954	21,034,000	321,668,954	785,829	322,454,783
Total assets	$	**399,554,302**	**23,372,065**	**422,926,367**	**3,387,264**	**426,313,631**

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2002

(CONTINUATION)

	Primary Government				
	Governmental Activities	Business Type Activities	Totals Primary Government	Component Unit	Totals Reporting Entity
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$ 19,127,268	13,306,128	32,433,396	2,506,858	34,940,254
Due to:					
Federal agency / Pass - through grantor	291,807	-	291,807	-	291,807
Other governmental entities	1,036,951	-	1,036,951	94,577	1,131,528
Claims and judgement	254,376	-	254,376	-	254,376
Deferred revenues:					
Volume of business tax	21,095,540	-	21,095,540	-	21,095,540
Others	3,739,636	-	3,739,636	-	3,739,636
General obligations, bonds and notes	19,808,000	-	19,808,000	-	19,808,000
Compensated absences	4,879,829	-	4,879,829	164,846	5,044,675
Interest payable	4,247,856	-	4,247,856	-	4,247,856
Total current liabilities	74,481,263	13,306,128	87,787,391	2,766,281	90,553,672
Noncurrent liabilities:					
General obligations, bonds and notes	151,476,090	-	151,476,090	-	151,476,090
Compensated absences	2,472,969	-	2,472,969	99,490	2,572,459
Property taxes advances	4,381,449	-	4,381,449	-	4,381,449
Accrued landfill obligations	6,107,300	-	6,107,300	-	6,107,300
Total noncurrent liabilities	164,437,808	-	164,437,808	99,490	164,537,298
Total liabilities	238,919,071	13,306,128	252,225,199	2,865,771	255,090,970

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2002

(CONTINUATION)

	Primary Government				
	Governmental Activities	Business Type Activities	Totals Primary Government	Component Unit	Totals Reporting Entity
Net assets:					
Invested in capital assets, net of related debt	45,041,064	4,087,196	49,128,260	785,829	49,914,089
Restricted for:					
Debt service	32,370,125	-	32,370,125	-	32,370,125
Capital projects	48,057,567	-	48,057,567	-	48,057,567
Economic development	14,026,302	-	14,026,302	-	14,026,302
Other purposes	3,993,830	-	3,993,830	-	3,993,830
Unrestricted	17,146,343	5,978,741	23,125,084	(264,336)	22,860,748
Total net assets	160,635,231	10,065,937	170,701,168	521,493	171,222,661
Commitments and contingencies (Note 17)	-	-	-	-	-
Total liabilities and net assets	$ 399,554,302	23,372,065	422,926,367	3,387,264	426,313,631

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

		Program Revenues			Net (expense) revenue and changes in net assets			
					Primary Government			
Functions/Programs	Expenses	Charges for Services and other	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Primary government:								
Governmental activities:								
General government	$ 40,957,859	579,336	-	-	(40,378,523)	-	(40,378,523)	-
Economic development	227,910	-	-	167,194	(60,716)	-	(60,716)	-
Capital outlays	4,910,011	-	4,555,982	-	(354,029)	-	(354,029)	-
Welfare	515,083	-	-	155,108	(359,975)	-	(359,975)	-
Housing	4,895,284	-	-	4,259,857	(635,427)	-	(635,427)	-
Highway, streets and transportation	6,131,821	-	-	-	(6,131,821)	-	(6,131,821)	-
Recreation and sports	6,403,920	306,605	-	-	(6,097,315)	-	(6,097,315)	-
Education and training	10,860,317	173,929	-	6,621,128	(4,065,260)	-	(4,065,260)	-
Sanitation	16,612,893	920,221	-	-	(15,692,672)	-	(15,692,672)	-
Public safety and security	13,266,521	148,560	-	133,306	(12,984,655)	-	(12,984,655)	-
Health	7,891,267	-	-	-	(7,891,267)	-	(7,891,267)	-
Interest	9,293,640	-	-	-	(9,293,640)	-	(9,293,640)	-
Total governmental activities	121,966,526	2,128,651	4,555,982	11,336,593	(103,945,300)	-	(103,945,300)	-
Business-type activities:								
Building lease	1,379,949	562,927	-	-	-	(817,022)	(817,022)	-
Total business-type activities	1,379,949	562,927	-	-	-	(817,022)	(817,022)	-
Total primary government	123,346,475	2,691,578	4,555,982	11,336,593	(103,945,300)	(817,022)	(104,762,322)	-

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

(CONTINUATION)

		Program Revenues			Net (expense) revenue and changes in net assets			
					Primary Government			
Functions/Programs	Expenses	Charges for Services and other	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Primary government:								
Governmental activities:								
Component Unit:								
Administration	641,646	-	-	627,070	-	-	-	(14,576)
Training and employment	7,292,197	-	-	7,789,844	-	-	-	497,647
Total component unit	$ 7,933,843	-	-	8,416,914	-	-	-	483,071
	General revenues;							
	Taxes:							
	Property taxes				$ 73,999,901	-	73,999,901	-
	Volume of business taxes				28,214,503	-	28,214,503	-
	Intergovernmental revenue, unrestricted				5,999,606	-	5,999,606	-
	Interest revenues				4,571,348	1,331,450	5,902,798	-
	Licenses, permits, fines and forfeits				5,488,924	-	5,488,924	-
	Legislative funds				1,120,210	-	1,120,210	-
	Miscellaneous				2,687,493	2,931,553	5,619,046	-
	Total general revenues				122,081,985	4,263,003	126,344,988	-
	Change in net assets				18,136,685	3,445,981	21,582,666	483,071
	Net assets - beginning of year				142,498,546	6,619,956	149,118,502	38,422
	Net assets - end of year				$ 160,635,231	10,065,937	170,701,168	521,493

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002

	General Fund	Economic Development Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS						
Cash, including certificates of deposits of $78,118,943	$ 59,594,254	15,835,649	4,206,510	-	3,215,289	82,851,702
Restricted assets:						
Cash with fiscal agent	648,155	-	57,001,848	38,994,797	-	96,644,800
Receivables:						
Federal agency / Pass - through grantor	-	828,374	-	-	2,344,217	3,172,591
Loans and accounts, net of allowance of $2,046,181 for uncollectible accounts	2,822,064	733,511	-	-	898,454	4,454,029
From other funds	11,881,146	667,296	2,257,839	1,000	781,214	15,588,495
From other governmental entities	2,797,353	-	-	5,312,544	-	8,109,897
Other	-	-	7,793,423	-	-	7,793,423
Interests	123,896	-	174,354	32,879	-	331,129
Total assets	$ 77,866,868	18,064,830	71,433,974	44,341,220	7,239,174	218,946,066

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002

(CONTINUATION)

	General Fund	Economic Development Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
LIABILITIES						
Accounts payable and accrued liabilities $	13,905,165	647,945	3,887,229	-	941,305	19,381,644
Due to:						
Others governmental entities	1,036,951	-	-	-	-	1,036,951
Others funds	2,296,738	1,462,464	7,948,417	152,607	3,728,269	15,588,495
Federal agency / Pass - through grantor	-	-	-	-	291,807	291,807
Deferred revenues:						
Volume of business tax	21,095,540	-	-	-	-	21,095,540
Others	3,153,607	-	361,648	5,100,000	1,740,421	10,355,676
Matured bonds & notes:						
Principal	-	-	-	8,005,000	-	8,005,000
Interests	-	-	-	3,761,288	-	3,761,288
Total liabilities	41,488,001	2,110,409	12,197,294	17,018,895	6,701,802	79,516,401

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002

(CONTINUATION)

	General Fund	Economic Development Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
FUND BALANCE						
Reserved for equipment	520,113	-	-	-	-	520,113
Reserved for encumbrances	3,104,523	-	-	-	-	3,104,523
Reserved for other purposes	17,696,477	-	-	-	537,372	18,233,849
Reserved for debt service	-	-	-	27,322,325	-	27,322,325
Reserved for capitals projects	-	-	59,236,680	-	-	59,236,680
Reserved for loans and grants	-	15,954,421	-	-	-	15,954,421
Unreserved	15,057,754	-	-	-	-	15,057,754
Total fund balance	36,378,867	15,954,421	59,236,680	27,322,325	537,372	139,429,665
Commitments and contingencies (Note 17)	-	-	-	-	-	-
Total liabilities and fund balance	$ 77,866,868	18,064,830	71,433,974	44,341,220	7,239,174	218,946,066

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2002
(Continuation)

Total fund balances for governmental funds	$ 139,429,665
Total net assets reported for governmental activities in the statement is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Governmental Funds Statement. Those assets consist of:	
Land	51,146,817
Infrastructure	11,662,074
Construction in progress	18,564,334
Buildings and improvements, equipment and vehicles, net of $21,761,175 accumulated depreciation	122,616,929
Total capital assets	203,990,154
Amount shown as other asset in Governmental Funds Statement, which is related to construction in progress in the Statement of Net Assets.	(7,793,423)
Some of **the Municipality's** taxes and other revenues will be collected after the year end but are not available soon enough to pay for the current period's expenditures, and, therefore, are reported as deferred revenues in the Governmental Funds Statement.	6,616,040
Some of interest expenses on long-term debt incurred during the year were not matured after year-end, therefore are not reported in the Governmental Funds Statement.	(486,568)
Long-term liabilities applicable to the Municipality's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term-are reported in the Net Assets. Balances at June 30, 2002, were:	
Compensated Absences	(7,352,798)
Landfill post-closure costs	(6,107,300)
Property taxes advances	(4,381,449)
Bonds and notes payable	(163,279,090)
Total net assets of governmental activities	$ 160,635,231

MUNICIPALITY OF CAROLINA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	General Fund	Economic Development Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES						
Property taxes	$ 53,506,623	-	-	14,367,120	-	67,873,743
Volume of business tax	28,214,503	-	-	-	-	28,214,503
Licenses, permits, fines and forfeits	5,488,924	-	-	-	-	5,488,924
Intergovernmental grants and others	5,782,860	383,940	-	-	966,253	7,133,053
Intergovernmental services	458,834	-	-	-	-	458,834
Interests	4,163,304	402,271	4,444	-	1,329	4,571,348
Property rent	588,062	-	-	-	-	588,062
Landfill	532,509	-	-	-	-	532,509
Legislative funds	1,120,210	-	-	-	-	1,120,210
Federal grants	-	4,555,982	-	-	10,203,146	14,759,128
Miscellaneous	2,746,857	-	-	-	-	2,746,857
Total revenues	102,602,686	5,342,193	4,444	14,367,120	11,170,728	133,487,171

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

(CONTINUATION)

	General Fund	Economic Development Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
EXPENDITURES						
General government	38,952,200	-	-	-	-	38,952,200
Public safety and security	11,518,849	-	-	-	133,308	11,652,157
Highway, streets and transportation	5,484,998	-	-	-	130,967	5,615,965
Sanitation	15,970,806	-	-	-	-	15,970,806
Health	7,884,505	-	-	-	-	7,884,505
Recreation and sports	5,437,882	-	-	-	-	5,437,882
Education and training	3,671,519	-	-	-	6,621,574	10,293,093
Housing	1,297,473	-	-	-	4,599,160	5,896,633
Welfare	-	-	-	-	520,301	520,301
Economic development	-	167,194	-	-	-	167,194
Capital outlays	-	3,987,793	20,468,297	-	-	24,456,090
Bonds & notes:						
Principal	-	-	-	11,030,000	-	11,030,000
Interest	-	-	-	8,807,072	-	8,807,072
Total expenditures	90,218,232	4,154,987	20,468,297	19,837,072	12,005,310	146,683,898

(Continues)

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

(CONTINUATION)

	General Fund	Economic Development Fund	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Excess / (deficiency) of revenues over / (under) expenditures before other financing sources / (uses)	12,384,454	1,187,206	(20,463,853)	(5,469,952)	(834,582)	(13,196,727)
OTHER FINANCING SOURCES / (USES)						
Proceeds from debt issued	-	-	2,062,820	-	-	2,062,820
Operating transfers - in	9,000,000	1,672,759	4,446,323	5,222,369	-	20,341,451
Operating transfers - out	(6,442,138)	(3,474,313)	(1,425,000)	(9,000,000)	-	(20,341,451)
Total other financing sources (uses)	2,557,862	(1,801,554)	5,084,143	(3,777,631)	-	2,062,820
Net change in fund balance	14,942,316	(614,348)	(15,379,710)	(9,247,583)	(834,582)	(11,133,907)
Fund balance at beginning of year	22,152,905	16,568,769	74,616,390	36,569,908	1,371,954	151,279,926
Prior period adjustment (Note 18)	(716,354)	-	-	-	-	(716,354)
Fund balance at beginning of year as adjusted	21,436,551	16,568,769	74,616,390	36,569,908	1,371,954	150,563,572
Fund balance at end of year $	36,378,867	15,954,421	59,236,680	27,322,325	537,372	139,429,665

(Continues)

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

MUNICIPALITY OF CAROLINA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2002
(Continuation)

Net change in fund balances-Governmental Funds Statement	$ (11,133,907)
Governmental Funds Statement reports capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.	19,053,769
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under modified accrual basis of accounting until due.	
These adjustments combine the net changes of the following two balances:	
Compensated absences	(4,879,829)
Accrued interest on loans	(486,568)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Governmental Funds Statement.	6,616,040
Bond proceeds provide current financial resources to governmental funds, but, issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental fund, but repayment reduces long-term liabilities in Statement of Net Assets. This is the amount which repayments exceeds proceeds.	8,967,180
Change in Net Assets of Governmental Activities	$ 18,136,685

MUNICIPALITY OF CAROLINA, PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts			
REVENUES	Original	Final	Adjusted Actual Note 1	Variance Favorable (Unfavorable)
Property taxes	$ 43,996,990	48,446,158	51,652,172	3,206,014
Volume of business taxes	23,247,445	26,818,231	28,140,720	1,322,489
Licenses, permits, fines and forfeits	987,000	2,141,648	3,463,587	1,321,939
Property rent	352,123	437,123	573,562	136,439
Intergovermental services	266,200	266,200	458,834	192,634
Landfill	-	-	77,520	77,520
Intergovermenal grants	5,888,707	5,888,707	5,607,685	(281,022)
Interest	3,000,000	3,000,000	3,972,078	972,078
Readjustments from prior year fund balance	-	8,144,485	-	(8,144,485)
Miscellaneous	800,000	4,918,521	557,490	(4,361,031)
Total revenues	78,538,465	100,061,073	94,503,648	(5,557,425)
EXPENDITURES				
General government	38,471,803	55,694,609	51,186,864	4,507,745
Public safety	12,348,887	12,217,539	11,270,379	947,160
Highway, streets and transportation	5,451,248	6,669,021	5,528,246	1,140,775
Sanitation	3,271,943	5,716,082	5,059,962	656,120
Health	8,041,391	7,933,791	7,884,506	49,285
Recreation and sports	4,639,285	6,322,123	5,339,692	982,431
Education and training	5,277,442	4,219,485	3,622,263	597,222
Housing	1,036,466	1,288,423	1,234,063	54,360
Total expenditures	78,538,465	100,061,073	91,125,975	8,935,098
Excess of revenues over expenditures	$ -	-	3,377,673	3,377,673

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts			
Revenues	Original	Final	Adjusted Actual Note 1	Variance Favorable (Unfavorable)
Property taxes	$ 16,723,878	16,723,878	14,367,120	(2,356,758)
Total revenues	16,723,878	16,723,878	14,367,120	(2,356,758)
Expenditures				
Bonds and notes	9,830,000	9,830,000	8,300,000	1,530,000
Interest-bonds and notes	6,893,878	6,893,878	6,455,519	438,359
Transfer out	-	-	9,000,000	(9,000,000)
Total expenditures	16,723,878	16,723,878	23,755,519	(7,031,641)
Excess of expenditures over revenues	$ -	-	(9,388,399)	(9,388,399)

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

MUNUCIPALITY OF CAROLINA
STATEMENT OF NET ASSETS
PROPIETARY FUND
JUNE 30,2002

	Enterprise Fund
Assets	
Current Assets:	
Cash	$ 135,972
Receivables,net	1,763,250
Direct financing lease	438,843
Total current assets	2,338,065
Noncurrent Assets:	
Direct financing lease, net of unearned interest of $6,176,959	6,786,658
Capital assets:	
Nondepreciable assets:	
Land	2,844,000
Depreciable assets:	
Buildings and equipment, net	11,403,342
Total noncurrent assets	21,034,000
Total assets	**$ 23,372,065**
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	$ 13,306,128
Total current liabilities	13,306,128
Net Assets:	
Invested in capital assets, net of related debt	4,087,196
Unrestricted	5,978,741
Total Net Assets	10,065,937
Total liabilities and net assets	**$ 23,372,065**

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

MUNUCIPALITY OF CAROLINA
STATEMENT OF REVENUS, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Enterprise Fund
Operating Revenues	
Charges for services	$ 562,927
Operating Expenses:	
Bad debts	193,077
Depreciation	835,852
Building maintenance	347,148
Others	3,872
Total operating expenses	1,379,949
Operating loss	(817,022)
Nonoperating Revenues	
Interest on direct lease	1,322,300
Interest revenues	9,150
Miscellaneus	2,931,553
Total nonoperating revenues	4,263,003
Change in net assets	3,445,981
Net assets - beginning of year	6,619,956
Net assets - end of year	$ 10,065,937

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

MUNICIPALITY OF CAROLINA, PUERTO RICO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2002

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 4,048,304
Other receipts	5,278
Net cash provided by operating activities	4,053,582
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(4,048,304)
CASH FLOWS FROM INVESTING ACTIVITIES	
Selling of investments	130,660
Net increase in cash and cash equivalents	135,938
Balance-beginning of the year	34
Balance-end of the year	$ 135,972

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 3,445,981
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	835,852
Other Income	(2,837,650)
Bad debts	193,077
Change in assets and liabilities:	
Receivables, net	4,438,041
Accounts and other payables	(2,021,719)
Net cash provided by operating activities	$ 4,053,582

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

GENERAL ORGANIZATION

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.

The financial statements of the **Municipality of Carolina (the Municipality)** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The following summarizes **the Municipality** significant accounting policies:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Municipality's financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.* This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus,* which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Reporting Entity (Continuation)

The **Municipality of Carolina** is required to implement this Standard for the fiscal year ended June 30, 2002.

Component Unit

The financial reporting entity included in this report consists of the combined financial statements of the **Municipality of Carolina** as primary government and the financial statements of the Employment Opportunity Municipal Agency (Workforce Investment Area of Municipality of Carolina-Local Area), a discretely presented component unit, since the Municipality is financially accountable for the Local Area. The Local Area is an entity organized by the **Municipality of Carolina** as requested by the Governor of Puerto Rico, in accordance with Section 116 of the Workforce Investment Act (WIA) and Section 2.001 of the Autonomous Municipal Law of Puerto Rico. The entity was designated as Service Delivery Area (SDA) according to the provision of the Workforce Investment Act of 1998, set forth in Section 116 and the federal regulation as issued by the U.S. Secretary of Labor for the implementation of WIA. The purpose of the organization is to establish programs to provide remedial education, training and employment assistance to economically disadvantages youth and adults, and persons facing multiple barriers to employment and dislocated workers.

Basic Financial Statements-GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basic Financial Statements-GASB Statement No. 34 (Continuation)

The government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

Basis of Presentation

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

Major Funds

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Presentation (Continuation)

Major Funds (Continuation)

Economic Development Fund – Accounts for the proceeds of Federal Grants and loans and Local Special assignments to develop specific purpose on the Economy of the Municipality.

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 other funds.

Business Type Activities

Enterprise Fund

The Enterprise 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.

Basis of Accounting

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting (Continuation)

Measurement Focus, Basis of Accounting

Government-wide Financial Statements. The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statement. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Governmental Fund Types/Governmental Activities. 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.

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 an available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Encumbrances

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and, accordingly, are reported with expenditures in all budgetary basis statements.

Budgetary Data

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

(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 $21,522,608 are reflected in the budget information included in the basic 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Data (Continuation)

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 and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

(1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.

(2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP 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 and debt service funds from the modified accrual basis of accounting to the budgetary basis are as follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Data (Continuation)

	General Fund	Debt Service Fund
Accounting per the Statement of Revenues, Expenditures and Changes in Fund Balance	$ 14,942,316	(9,247,583)
Adjustments:		
Non-budgeted funds received during the year	(17,099,038)	-
Non-budgeted funds expended during the year	4,616,038	-
Transfer of funds from the General and Economic Development Funds	-	(5,222,368)
Expenditures of principal and interest for operating municipal loans and federal loans guarantee	-	5,081,552
Current year encumbrances recognized as expenditures on the budgetary basis	(2,287,392)	-
Prior year encumbrances recognized as expenditures on the accounting basis	3,205,749	-
Excess of revenues (expenditures) over expenditures (revenues) budgetary basis	$ 3,377,673	(9,388,399)

The budget prepared for each of the components of the Economic Development Fund, Capital Project Fund and Other Funds are 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 others major and non-major funds.

Deposits

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 is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Data (Continuation)

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 basic financial statements since amount is insignificant.

Capital Assets

Fund Financial Statement

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statement

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the time they are received by **the Municipality** and is capitalized in the Statement of Net Assets. 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.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation 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 vacation 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 vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other 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 designated agency to obtain the necessary insurance coverage for **the Municipality**.

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 Deposits Note.

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.

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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Reservations of Fund Balance (Continuation)

* ***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.

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 and in the Statement of Net Assets.

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.

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.

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.

2. PROPERTY TAXES (Continuation)

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.

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 $1,676,420 during 2002.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2002 and outstanding debt from 2002. The resulting receivable is presented as a deferred revenue in the general fund for Fund Financial Statement and as a revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

Account Receivable:	
Amortization through collections of property taxes by the CRIM, 7/1/01-6/30/02	$ 46,160,414
Advanced received, 7/1/01 - 6/30/02	(45,134,256)
Due from CRIM-2002	$ 1,026,158
Due to CRIM-2000	$ 4,381,449

The payment for the outstanding debt amounted $4,381,449, 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. DEPOSITS

Deposits include certificates of deposits amounting to $78,118,943. **The Municipality's** cash and investments at June 30, 2002, were entirely covered by the Federal Depository Insurance Corporation 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 collaterized by the Commonwealth of Puerto Rico.

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.

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains 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.

5. MUNICIPAL LICENSE TAXES (Continuation)

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 (Fund Financial Statement)

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	$ 11,881,146	2,296,738
Other Funds	781,214	3,728,269
Debt Service	1,000	152,607
Capital Project	2,257,839	7,948,417
Economic Development	667,296	1,462,464
	$ 15,588,495	15,588,495

The interfund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

7. LOANS AND ACCOUNT RECEIVABLE

General Fund

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

Economic Development 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.

Other Governmental Funds

The accounts receivable under other government funds are principally due from a project developer.

Debt Service Fund

The CRIM has not determined the CAE (Contribución Adicional Especial) property tax for the fiscal year 2001-2002. Therefore, **the Municipality** has estimated such property tax based on prior years experience which actual amount may be different from the estimate.

7. LOANS AND ACCOUNT RECEIVABLE (Continuation)

Due From (To) Governmental Agencies

As of June 30, 2002 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)	$ 1,026,158	-
Treasury Department of Puerto Rico	1,454,965	-
Electric Power Authority	316,230	-
Puerto Rico Workmen Compensation State Insurance Fund	-	293,927
Puerto Rico Telephone Company	-	115,640
Water and Sewer Authority	-	26,590
Puerto Rico Retirement System	-	500,279
State Unemployment Insurance Fund	-	100,515
Totals	$2,797,353	1,036,951

Part of the balances of due from governmental agencies were recorded as deferred revenues-others as of June 30, 2002.

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 capital 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 capital assets recorded in the Statement of Net Assets. **The Municipality** has substantially completed the process at June 30, 2002.

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, 2002:

Balance at June 30, 2001	$ 172,246,270
Less:	
Amount reclassified from Bonds Anticipation Note (BAN's) to proceeds from new issuance.	(1,037,270)
Adjusted Balance	171,209,000
Proceeds from new issuance	1,248,000
BAN's notes	1,852,090
Less current payments and maturities:	
Bonds $ 8,365,000	
Notes $ 2,665,000	(11,030,000)
Balance at June 30, 2002	$ 163,279,090

11. GENERAL LONG-TERM DEBT (Continuation)

General Long-Term Debt as of June 30, 2002 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%.	$ 19,125,000
Series of 2000 - $30,285,000 payable in annual installments of $1,020,000 to $2,400,000 until July 1, 2017; with interest at 8%.	27,060,000
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%.	22,675,000
Series of 1998 - $13,165,000 payable in annual installments of $210,000 to $1,175,000 until July 1, 2020; with interest at 5.19% to 6.56%.	11,905,000
Series of 1991 - $20,945,000 payable in annual installments of $685,000 to $2,450,000 until July 1, 2005; with interest at 6.163% to 6.313%	6,725,000
Series of 1994 - $7,320,000 payable in annual installments of $270,000 to $790,000 until July 1, 2008; with interest at 7.106% to 7.606%.	3,955,000
Series of 1993 - $21,260,000 payable in annual installments of $845,000 to $2,450,000 until July 1, 2007; with interest at 7.106% to 7.506%.	10,465,000
Series 97 - $1,248,000 payable in annual installments of $100,000 to $152,000 until January 1, 2011;with interest at 4.750%.	1,148,000
Series of 1994 - $2,035,000 payable in annual installments of $75,000 to $220,000 until July 1, 2009; with interest at 7.106% to 7.706%.	1,240,000
Series of 1995 - $11,885,000 payable in annual installments of $440,000 to $1,285,000 until July 1, 2009; with interest at 7.106% to 7.706%.	7,225,000
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%.	771,000

11. GENERAL LONG-TERM DEBT (Continuation)

Bonds	
Series of 1995 - $16,630,000 payable in annual installments of $250,000 to $1,465,000 until July 1, 2019; with interest at 5.70% to 6.63%.	14,405,000
Series of 1996 - $10,475,000 payable in annual installments of $255,000 to $1,010,000 until July 1, 2015; with interest at 5.70% to 6.58%.	8,615,000
Series of 1997 - $2,370,000 payable in annual installments of $30,000 to $205,000 until July 1, 2022; with interest at 5.19% to 6.56%.	2,180,000
Series of 1980 - $991,000 payable in annual installments of $21,000 to $65,000 until January 1, 2004; with interest at 5%.	130,000
Total General Debt - Bonds	137,624,000
Notes	
Municipal Funds	
Series of 1986 - $21,000,000 payable in annual installments of $1,050,000 until January 7, 2006; with interest at 8.5%.	4,200,000
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

11. GENERAL LONG-TERM DEBT (Continuation)

During the fiscal year 2001-2002, the Municipality had issued Bond Anticipation Notes (BAN's) in the amount of $1,852,090 and $2,403,000 on fiscal year 2000-01 (net of amount refinancing by issuing general obligation bond). 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 $4,000,000 and $1,450,000.	4,255,090
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%.	2,900,000
Total Federal Funds	21,455,090
Total Notes	25,655,090
Total Long-term debt	163,279,090
Less Current Portion	(11,803,000)
Long-term Portion	$ 151,476,090

The annual requirements to amortize the general long-term bonds and notes at June 30, 2002, including payment of interest are as follows:

Year	Principal	Interests	Total
2003	$ -	11,056,648	11,056,648
2004	14,160,000	10,363,334	24,523,334
2005	12,259,000	9,131,176	21,390,176
2006	10,408,000	8,288,929	18,696,929
2007	10,009,000	7,551,540	17,560,540
2008-2012	35,410,000	29,224,650	64,634,650
2013 and thereafter including BAN's	69,230,090	21,422,542	90,652,632
Totals	$151,476,090	97,038,819	248,514,909

11. GENERAL LONG-TERM DEBT (Continuation)

The original loan guarantee notes payable of $22,300,000, with an outstanding balance of $17,200,000, 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.

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

Property taxes	$14,614,704
Ordinary funds	3,291,611
Capital project fund	1,930,757
	$19,837,072

Expenditures for year 2001-2002 were as follows:

Principal (Note 10)	$11,030,000
Interest	8,807,072
	$19,837,072

13. CAPITAL ASSETS

Fund Financial Statements

The Municipality charged costs of capitalizable outlays as expenditures categories in the Governmental Fund Financial Statements.

13. CAPITAL ASSETS (Continuation)

Government Wide Financial Statements

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

Asset Class	Estimated Useful Lives	Capitalization Threshold
Vehicles, Heavy Equipment	4-10	$300
Furniture and Fixture	10	$300
Computer and Electronic Equipment	5	$300
Buildings	50	$1
Infrastructure	60	$1
Improvements	20-40	$1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

Capital Assets	Balances 6/30/01	Additions	Retirements, Dispositions and Transfers	Balances 6/30/02
Governmental Activities:				
Non-depreciable assets:				
Land	$ 47,319,801	3,827,016	-	51,146,817
Construction in progress	10,576,497	7,987,837	-	18,564,334
Sub-totals	57,896,298	11,814,853	-	69,711,151
Infrastructure in progress	-	11,662,074	-	11,662,074
Total Non-depreciable assets	$57,896,298	23,476,927	-	81,373,225

13. CAPITAL ASSETS (Continuation)

Government Wide Financial Statements (Continuation)

Capital Assets	Balances 6/30/01	Additions	Retirements, Dispositions and Transfers	Balances 6/30/02
Governmental Activities:				
Depreciable assets:				
Buildings and improvements	$118,123,415	7,077,710	-	125,201,125
Vehicles, Equipment, Furniture & Fixture	17,929,592	1,247,387	-	19,176,979
Sub-totals	136,053,007	8,325,097	-	144,378,104
Less accumulated depreciation	(18,868,810)	(2,892,365)	-	(21,761,175)
Depreciable assets, net	$117,184,197	5,432,732	-	122,616,929
Business Type Activities:				
Non-depreciable assets:				
Land	$ 1,870,000	974,000	-	2,844,000
Depreciable assets:				
Buildings and Infrastructure	$ 11,989,400	2,504,400	-	14,493,800
Equipment	467,600	-	-	467,600
Sub-total	12,457,000	2,504,400	-	14,961,400
Less accumulated depreciation	(2,722,206)	(835,852)	-	(3,558,058)
Depreciable assets, net	$ 9,734,794	1,668,548	-	11,403,342

Depreciation expense was charged to functions as follows:

General Government	$ 835,114
Economic Development	7,361
Welfare	1,146
Housing	6,076
Transportation	101,402
Recreation and Sports	671,208
Education and Training	337,782
Sanitation	142,419
Public Safety	536,533
Health	253,324
Total	$ 2,892,365

14. RETIREMENT SYSTEM

Plan Description

Regular employees of **the Municipality** contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P. O. Box 42003, San Juan, Puerto Rico 00940.

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

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.

14. RETIREMENT SYSTEM (Continuation)

Plan Description **(Continuation)**

NEW PLAN

Eligibility	Pension Benefits
Age 65 with 10 years of service	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.

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be 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 2002 was approximately $32,676,900 of which $28,083,200 were subject to the System. The annual employer and employees contribution for the year ended June 30, 2002 amounted approximately $2,634,300 and $2,258,100 respectively. Members' contributions are 5.775% for gross salaries up to $6,600 plus 8.275% of the gross salary in excess of $6,600 and the Municipality is required to contribute 9.275% of gross salary.

14. RETIREMENT SYSTEM (Continuation)

Actuarial Valuation

The actuarial determined present value of benefits accrued as of July 1, 2000 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to $9.5 billion. The net assets available for benefits at such date were $2.1 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of $7.4 billion. This information is not available by each participant government agencies nor municipalities.

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:

a) Interest rate	8.5% a year
b) Salary increases	5.0% a year
c) Mortality	GAM'83 Mortality Table set forward two years.
d) Termination	Medium Turnover Table commensurate with anticipated experience.
e) Disability	65% of Third Railroad Retirement Table Rates.
f) Retirement age	Graded scale of retirement ages commensurate with anticipated experience.
g) Proportion of participants with spouses	80% of participants assumed to be married, with wives assumed to be four years younger than husbands.
Number of employees electing higher contributions	15% of retiring employees assumed to pay retroactive contributions at retirement.
i) Cost-of-living adjustment	3% every third year

15. LONG TERM LIABILITIES

Compensated Absences

Accounts for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The changes in Compensated absences for the year ended June 30, 2002 are as follows:

Governmental activity	June 30, 2001	Net Decrease	June 30, 2002
Compensated Absences	$ 8,276,956	(924,158)	$7,352,798

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations. The current portion of the liability has been calculated using the vesting method, in which every employee with 58 years of age and at least 10 years of creditable service is entitled to an early retirement benefit. On the other hand, the long-term portion consist of those employees, which at the close of the fiscal year have not attained 58 years of age nor 10 years of creditable service.

16. 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, 2002, were approximately $792,900 included in all funds.

16. LEASES (Continuation)

Direct Financing Leases

The Municipality acquired two real properties (See Note 1) 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, 2002:

Total minimum lease payments to be received	$13,402,460
Less unearned interest income	(6,176,959)
Net investment in direct financing leases	$ 7,225,501

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

Year	Principal	Interests	Total
2003	$ 438,843	1,193,073	1,631,916
2004	519,389	1,112,527	1,631,916
2005	656,937	1,014,580	1,671,517
2006	786,690	892,746	1,679,436
2007	931,080	748,356	1,679,436
2008 and thereafter	3,892,562	1,215,677	5,108,239
	$ 7,225,501	6,176,959	13,402,460

17. CONTINGENCIES AND COMMITMENTS

Contingencies

Litigation

Litigation represents the ultimate liability, if any, of **the Municipality** as a defendant in various lawsuits, not covered by insurance.

The Municipality has been named as a defendant or co-defendant in various lawsuits amounting to approximately $79 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, an accrual of $254,376 has been established at June 30, 2002 to cover those legal cases, which attorneys have advised are probable of having an unfavorable outcome.

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. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse to the grantor agency. Accordingly, the Administration's compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

17. CONTINGENCIES AND COMMITMENTS (Continuation)

Commitments

The Capital Project Fund reflects construction commitments for which the Municipality is obligated to an amount of approximately $13 millions. These are commitments for the improvements of recreational and cultural facilities and for streets and general developments.

18. 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 $716,354 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.)

19. 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 Statement of Net Assets at June 30, 2002. **The Municipality** expects to finance this obligation with the issuance of general obligation bonds.

20. SUBSEQUENT EVENT

The Municipality obtained an approval of a $27,810,000 loan from a financial institution in November 2002. Also, **the Municipality** is in the process of approval of another loan for approximately $1.3 millions from the Government Development Bank for Puerto Rico.

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 accompanying basic financial statements of the **Municipality of Carolina**, Puerto Rico, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002. 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 two paragraphs.

As described in Notes 10 and 18 to the Financial Statements, **the Municipality** adjusted its beginning general fund balance in the amount of $716,354 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 operation of the general fund. Due to lack of information, **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, 2002. Because the uncertainty of the correctness of the general and the capital project fund balances, we were unable to determine the effect, if any, on the 2002 operations.

As described in note 9 to the Financial Statements, **the Municipality** has substantially completed the process of identifying and valuing the investment in general capital assets. However, some differences have been identified when compared to the accounting records and are being corrected. We are unable to satisfy ourselves about the correctness of such general capital assets balance.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Carolina**, 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 02-II-1.

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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)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **the Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 financial reporting that, in our judgment, could adversely affect **the Municipality's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 02-II-1 in the current year Schedule of Findings and Questioned Costs section accompanying this report.

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

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

December 20, 2002
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp 1780332 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, 2002. 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, 2002. However, the results of our auditing procedures disclosed six 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 02-III-1, 2, 3, 4, 5 and 6, in the current year Schedule of Findings and Questioned Costs Section accompanying this report.

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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 Section III-Schedule of Federal Award Findings and Questioned Costs as items 02-III-1, 2, 3, 4, 5, and 6 in the current year Schedule of Findings and Questioned Costs Section accompanying this report.

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 accompanying basic financial statements of the **Municipality of Carolina** as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002. In our report, our opinion was qualified as described in the following two paragraphs.

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 described in Notes 10 and 18 to the Financial Statements, **the Municipality** adjusted its beginning general fund balance in the amount of $716,354 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 operation of the general fund. Due to lack of information, **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, 2002. Because the uncertainty of the correctness of the general and the capital project fund balances, we were unable to determine the effect, if any, on the 2002 operations.

As described in note 9 to the Financial Statements, **the Municipality** has substantially completed the process of identifying and valuing the investment in general capital assets. However, some differences have been identified when compared to the accounting records and are being corrected. We are unable to satisfy ourselves about the correctness of such general capital assets balance.

Our audit was performed for the purpose of forming an opinion on the basic 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 basic financial statements of **Municipality of Carolina**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

February 12, 2003
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp 1780333 was affixed to the record copy of this report.

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2002

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-Housing Choice Voucher	14.871	RQ-014-VO	$3,005,922
Community Development Block Grant Program, Entitlement Grants and Loan Guarantee	14.218	MC-72-0005	5,718,589
Non-Major Programs:			
Direct Programs:			
HOME Investment Partnership Program	14.239	MC-72-0204	1,315,806
Emergency Shelter Grant Program (Homeless)	14.231	MC-72-0006	365,051
Pass-Through Municipality of San Juan, Department of Housing:			
Housing Opportunity for Persons with AIDS Program	14.241	PRH01F001	269,465
Sub-total, carry forward			10,674,833

See accompanying notes to this Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through or Grant Identifying Number	Federal Expenditures
Balance brought forward			10,674,833
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	5,009,105
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	84,259
Pass-Through Puerto Rico Family Department: Child Care Development Block Grant	93.575	123-000057	234,975
U.S. Department of Agriculture			
Major Program:			
Direct Program: Community Facilities Loans and Grants	10.766	N/A	2,062,820
Non-Major Programs:			
Pass-Through Puerto Rico Department of Education: Child and Adults Care Food Program	10.558	CCC-046	459,814
Sub-total, carry forward			18,525,806

See accompanying notes to this Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through or Grant Identifying Number	Federal Expenditures
Balance brought forward			18,525,806
Pass-Through Puerto Rico Elderly Commission: Nutrition Program for the elderly	10.570	N/A	31,353
U.S. Department of Justice			
Non Major Programs:			
Pass-Through Puerto Rico Department of Justice: Byrne Formula Grant Program (victims of crime act)	16.579	RAMA-VAGX0072	64,240
Pass-Through Puerto Rico Department of Justice: Law Enforcement Block Grant	16.592	2000-LB-B4-07256	69,068
Total Federal Expenditures			$18,690,467

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES FEDERAL AWARDS
For the year ended June 30, 2002

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1. GENERAL

The accompanying Schedule of Expenditures of Federal 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 financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the 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 in the United States of America.

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

D. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ form amounts presented in, or used in the Preparation of the Basic Financial Statements.

4. LOANS

Loan Guarantee

The Municipality had loan guarantees outstanding amounting to $17,200,000 at June 30, 2002. The expenditures incurred by loan guarantees were added to CDBG expenditures for purpose of Schedule of Expenditures of Federal Awards (cluster program.)

4. **LOANS** (Continuation)

USDA Rural Development Loans

A total amount of $4,255,090 was expended of which $1,852,090 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/A are not available.

7. **RELATIONSHIP TO FUND FINANCIAL STATEMENTS**

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

MUNICIPALITY OF CAROLINA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the ended June 30, 2002

7. **RELATIONSHIP TO FUND FINANCIAL STATEMENTS** (Continuation)

Major Funds	Total Expenditures	Municipal Funds Expenditures	Federal Funds Expenditures
Economic Development Fund	$ 6,140,660	422,071	5,718,589
Capital Project Fund	20,468,297	18,405,477	2,062,820
Other Funds	12,005,310	1,096,252	10,909,058
Totals	$ 38,614,267	19,923,800	18,690,467

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Part I - Financial Statements

1.	Type of auditor's report issued, **qualified**.		
2.	Reportable Conditions reported	X Yes	____ No
3.	Reportable conditions reported as material weaknesses	__ Yes	X No
4.	Material noncompliance disclosed	__ Yes	X No

Part II - Federal Awards

1.	Reportable Conditions Reported	X Yes	____ No
2.	Reportable conditions reported as material weakness(es)	__ Yes	X No
3.	Type of auditor's report issued on compliance for major programs was: **unqualified.**		
4.	Audit findings required to be reported under Section 510(a) of Circular A-133	X Yes	____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.871	SECTION 8
14.218 (Cluster)	CDBG
93.600	HEAD START
10.766	USDA LOANS

Dollar threshold used to distinguish between type A and type B programs: $ 464,019

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, 2002

SECTION II - FINANCIAL STATEMENT FINDINGS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start, USDA Loans	02-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. We noted certain differences in reported transactions like subsidiary ledgers, payroll and obligations control accounts. Cause Due to inadequate use of the accounting system, there have been differences with payroll records, outstanding obligations with their respective outstanding accounts payable and receivables. Effect Duplicate accounting records were prepared related with certain payroll reimbursements to the general fund. Also, account balances resulting form their respective transactions were incorrect, and late payments on accounts payable were noted. Alternate manual accounting system was used to obtain the correct account balances.	—

SECTION II - FINANCIAL STATEMENT FINDINGS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start, USDA Loans	02-II-1	**Accounting Records** (Continuation) Recommendations We recommend prompt correction to the account balances. Also, proper supervision should be exercised to ensure correct use of the accounting system in place to keep it in accordance with federal regulations. Management Comments Municipality's Finance Personnel informed that proper follow up will be made on the supervision of key personnel, in order to correct the account balances.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8	02-III-1	**Allowable Costs Principle**	
		Criteria and Condition OMB Circular A-133 (compliance B), requires that all cost charged by the program are in accordance with allowable costs and activities specified in the 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 had advanced $278,612 funds to HOPWA program without HUD authorization.	$278,612
		Cause HOPWA grantor is not transferring the funds on time and, therefore, it has been borrowing monies from Section 8 federal program to pay its expenditures.	
		Effect An account receivable from HOPWA of $278,612 may not be collected because, the grantor may not transfer the funds to HOPWA.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Section 8	02-III-1	**Allowable Costs Principle** (Continuation) Recommendation The HOPWA federal program officials should continue collection efforts from its grantor in order to refund the amount owed to Section 8 program. Management Comments Municipality officials indicated that strong collection efforts have been made from the grantor to no avail. Therefore, the program is considering legal actions against the grantor.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, USDA, Head Start	02-III-2	**Cash Management** Criteria and Condition The OMB Circular A-133 (compliance C), requires that 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. Also, interest earned, over $100 related to CDBG and USDA and $250 to Head Start have not been reimbursed to the federal agencies. Cause The administrative personnel are not following adequately the procedures to minimize the time elapsed between the draw down and funds disbursement. Effect The programs are maintaining high cash balances and, therefore, is not complying with program regulations.	—

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, USDA, Head Start	02-III-2	**Cash Management** (Continuation) Recommendations We recommend that proper supervision should be exercised to ensure that adequate procedures are maintained to comply with program regulations. Management Comments For USDA and CDBG, Management will enforce internal control procedures to avoid high cash balances. For Head Start, the administrative personnel is holding monthly meetings to discuss, review and improve control over the payments procedures.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start	02-III-3	**Period of Availability of Federal Funds**	
		Criteria and Condition	
		The OMB Circular A - 133 (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. For Head Start program and Early Head Start, we found that the obligations were not paid within 90 days.	—
		Cause	
		The administrative personnel are not following adequately federal regulations related to program requirements. Also, an extension to pay such obligations beyond allowable time was not available for examination.	
		Effect	
		Not in compliance with program regulations related to accounts payable vendors.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start	02-III-3	**Period of Availability of Federal Funds** (Continuation) Recommendations All payments should be made on or before 90 days or an extension requested in order to comply with federal regulations. Management Comments The administrative personnel is holding monthly meetings to discuss, review and improve control over the payments procedures. In addition, management requested an extension of time to pay those obligations over 90 days due but, has not received response from the federal agency.	

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-compliance	Questioned Costs
Head Start	02-III-4	**Earmarking Test** Criteria and Condition The OMB Circular A-133 (compliance G) states that earmarking percentages have to be followed for expenditures. Based on our examination, we noted, that the administrative expenditures files were incomplete to determine the appropriate percentage of Administration expenditures. Cause The administrative personnel are not following adequately program regulations. Effect Not in compliance with program regulations. Recommendations We recommend that Administrative expenditures files should be well documented to support the required percentage of Administrative expenditures as it is required by federal regulations.	—

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-compliance	Questioned Costs
Head Start	02-III-4	**Earmarking Test** (Continuation) Management Response The program officials informed that they will follow up and complete administrative expenditures files to support the Administrative expenditures percentage required by the federal regulations.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start USDA Loans	2-III-5	**Equipment Management** Criteria and Condition The OMB Circular A - 133 (Compliance F), requires that equipment records should be accurate maintained and physical inventory should be taken at least once every two years. During our examination, we were not provided with an accurate detail of inventory accounting records that reconciled with physical inventory records related to Head Start, Early Head Start and CDBG. Also, an inventory record, or investment in the "Acueducto Municipal" financed by an USDA Rural Development loan, was not available for examination. Cause The programs maintain incomplete equipment accounting records and, therefore, a reconciliation between physical inventory and accounting records amounts has not been possible. Effect Not in compliance with program regulations.	—

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
CDBG, Head Start USDA Loans	2-III-5	**Equipment Management** (Continuation) Recommendations More supervision should be exercised to ensure proper accounting records for equipment are maintained and that could be then reconciled with the physical inventories. Also, adequate procedures should be established for safeguarding of capital assets. Management Comments A new director was hired in February 2003, to update the capital assets accounting records for all funds in order to comply with GASB 34.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start USDA Loans	02-III-6	**Reporting** Criteria and Condition The OMB Circular A - 133 (compliance L), requires that certain financial reports need to be submitted periodically to the required federal agency. For Head Start and Early Head Start, FSR 272 for quarter ended on March 31, 2002, and June 30, 2002, were submitted 13 and 6 days, respectively, later than program regulations due dates. Also, the FSR 269 for Head and Early Head Start were 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 2001. For USDA Loans, municipality should summit loan financial statements before September of each year. Such statements were not available for examination.	—
		Cause A delay on the closing of accounting records was the cause of the late submission of the financial reports required by federal agency.	

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Program	Finding Number	Findings/Non-Compliance	Questioned Costs
Head Start USDA Loans	02-III-6	**Reporting** (Continuation) Effect The program 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 of FSR's against accounting records to ensure consistency in among financial data. Management Comments Management informed that proper supervision will be followed to ascertain compliance with programs regulations.	

MUNICIPALITY OF CAROLINA, PUERTO RICO
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

For all prior year findings and questioned cots the Municipality has filed The Corrective Action Plan on letters dated March 31, 2002, March 29, 2001; March 15, 2000; for the fiscal years 2000-01, 1999-00 and 1998-99.

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
06/30/01	Head Start, USDA CDBG	01-II-1	**Accounting Records** There are some differences among accounting details and their respective general ledgers on Head Start and USDA.	Situation still prevails. For CDBG, finding was cleared by federal agency.
	Section 8	01-III-1	**Allowable Costs** Questioned cost about $271,193 of unauthorized transfers to HOPWA program. without authorization of federal agency. Collect ability from HOPWA's grantor is uncertain.	Situation still prevails.
	CDBG Section 8, USDA, Head Start	01-III-2	**Cash Management** Time elapsed between draw downs of funds and disbursement were not in accordance with federal regulation.	Situation still prevails. For CDBG, finding was cleared by federal agency. For Section 8, corrective action was implemented.

MUNICIPALITY OF CAROLINA, PUERTO RICO
SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/01	Section 8, USDA, CDBG	01-III-3	**Special Test and Provisions** Municipality failed to comply with reasonable studies for year newly units as required by Section 8 regulations. For USDA, inadequate internal control over food physical inventory was found. For CDBG the citizen participation plan and the environmental review record for fiscal year 2000-01, were not available for examination.	For Section 8 corrective action was implemented For CDBG, findings was cleared by federal agency.
	Head Start CDBG	01-III-4	**Period of Availability of Federal Funds** For Head Start, Administrative Personnel have not been paying the obligation incurred within the 90 days after the year ended closing. For CDBG, obligation balances over five years since grant approval were recorded amounting $207,957.	Situation still prevails. For CDBG Municipality management reprogramated funds approved. Also, federal Agency cleared findings.
	CDBG Loan Guarantee	01-III-5	**Davis Bacon Act** Municipality's management failed to verify that contractors comply with federal prevailing wages.	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, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/01	USDA	01-III-6	**Earmarking Test** Earmarking expenditures percetanges were not followed in the program.	Management is in the process of implemented corrective action.
	CDBG, Head Start	01-III-7	**Equipment Management** Municipality didn't have an accurate inventory purchased with federal funds.	Situation still prevails.
	CDBG, Head Start	01-III-8	**Reporting** Some of required financial reports to be submitted were not submitted were not comply with the time required by federal agencies. Also, some differences were found between financial reports submitted and financial records.	Situation still prevails. For CDBG corrective action was implemented.
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.	For Section 8 corrective action was implanted. For Head Start 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, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/00	COPS, and HOME	00-II-2	**Accounting Records** For COPS 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 Home finding was cleared by federal agency. For COPS, grant ended on February 2001.
	Section 8, Head Start, COPS and CDBG.	00-III-1	**Reporting** Financial Reports submitted after due date required by federal agency.	For Section 8 and CDBG corrective actions were implemented. For Head Start, situation still prevail. For COPS, grant ended on February 2001.
	CDBG, Head Start	00-III-2	**Cash Management** Time elapsed between draw downs of funds and disbursements were not in accordance with federal regulation.	Finding was cleared by federal agencies.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/00	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 CDBG, Municipality performed a physical inventory and is in the process to reconciled with accounting records; however, the situation still prevail. For Section 8 the corrective action was implemented. For HOME, and Head Start finding was cleared by the federal agencies.
	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.	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, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/00	Head Start	00-III-5	**Unallowable Costs** Disbursement amounting $57,340 for administrative office rent without grant approved amount was questioned.	Finding was cleared by federal agency.
	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.	Finding was cleared by federal agency.
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. For CDBG and Section 8, corrective action were implemented.
	FEMA, COPS	99-II-2	**Accounting Records** For COPS and FEMA, the Municipality have not maintained adequate accounting records	For FEMA, federal agency unobligated authorized fund on July 2001. For COPS, the grant ended in February 2001.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/99	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. However, collections actions are in process.
	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, grant ended on February 2001. For Section 8, corrective actions were implemented. 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, 2002

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/99	Head Start	99-III-3	**Special Test and Provision** Municipality failed in comply with the fire department licenses for period ended on 06/30/99.	The Municipality was implemented corrective action.
	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.	Situation still prevails. However for Head Start and CDBG Municipality performed a physical inventory and are 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.	Corrective action was implemented.

MUNICIPALITY OF CAROLINA, PUERTO RICO

SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2002

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	Corrective action was implemented.

RECIBIDO
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03 APR -8 AM 9:37

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03 APR -8 AM 9:36
RECIBIDO
UNIDAD DE CORREO

March 27, 2003

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

RE: SINGLE AUDIT FOR THE YEAR ENDED JUNE 30, 2002
MUNICIPALITY OF CAROLINA, PUERTO RICO

Required by the Single Audit Act of 1984, as amended, enclosed please find audit package for the Single Audit for the year ended June 30, 2002. 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 L. López Irizarry, Internal Auditor at (787) 757-2626 ext. 409.

Cordially,

José E. Aponte De La Torre
Mayor

CAROLINA
TIERRA DE GIGANTES

INTERNET REPORT ID: 74215 3/14/03 EIN: 6 6 0 4 3 3 5 3 9

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS – Continued (Page 3 - #1 of 2)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR / **11. AUDIT FINDINGS**

CFDA Number (a) Federal Agency Prefix[1]	Extension[2]	Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s)[3] (a)	Audit finding reference number(s)[4] (b)
14	.218	1 ☐ Yes 2 ☒ No	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANTS	$ 5,718,589 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	CF	02-III-2,5
14	.871	1 ☐ Yes 2 ☒ No	SECTION 8 HOUSING CHOICE VOUCHER	$ 3,005,922 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	B	02-III-1
14	.241	1 ☐ Yes 2 ☒ No	HOSUING OPPORTUNITIES PERSONS WITH AIDS	$ 269,465 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
14	.239	1 ☐ Yes 2 ☒ No	HOME INVESTMENT PARTNERSHIP PROGRAM	$ 1,315,806 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	O	N/A
14	.231	1 ☐ Yes 2 ☒ No	EMERGENCY SHELTER GRANT PROGRAM (HOMELESS)	$ 365,051 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	O	N/A
93	.600	1 ☐ Yes 2 ☒ No	HEAD START AND EARLY HEAD START	$ 5,009,105 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	CHFLE	02-II-1;02-III-2 ,3,4,5,6
93	.045	1 ☐ Yes 2 ☒ No	SPECIAL PROGRAM FOR THE AGING TITLE III-C	$ 84,259 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
93	.575	1 ☐ Yes 2 ☒ No	CHILD CARE DEVELOPMENT BLOCK GRANT	$ 234,975 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
10	.766	1 ☐ Yes 2 ☒ No	COMMUNITY FACILITIES LOANS AND GRANTS	$ 2,062,820 .00	1 ☒ Yes 2 ☐ No	1 ☒ Yes 2 ☐ No	EL	02-II-1;02-III-5 ,6
10	.570	1 ☐ Yes 2 ☒ No	NUTRITION PROGRAM FOR ELDERLY	$ 31,353 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
TOTAL FEDERAL AWARDS EXPENDED →				$ 18,690,467 .00	*IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS*			

[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. *(See Instructions)*

[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 weaknesses), 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
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

[4] N/A for NONE

INTERNET REPORT ID: 74215 3/14/03 EIN: 6 6 0 4 3 3 5 3 9

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS – Continued (Page 3 - #2 of 2)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR / **11. AUDIT FINDINGS**

CFDA Number (a) Federal Agency Prefix [1]	Extension [2]	Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s)[3] (a)	Audit finding reference number(s)[4] (b)
1 0	.558	1 ☐ Yes 2 ☒ No	CHILD AND ADULTS CARE FOOD PROGRAM	$ 459,814 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
1 6	.579	1 ☐ Yes 2 ☒ No	BYRNE FORMULA GRANT PROGRAM (VICTIMS OF CRIME ACT)	$ 64,240 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
1 6	.592	1 ☐ Yes 2 ☒ No	LAW ENFORCEMENT BLOCK GRANT	$ 69,068 .00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No	O	N/A
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
		1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No		
TOTAL FEDERAL AWARDS EXPENDED →				$ 18,690,467 .00	*IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS*			

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[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 weaknesses), 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
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

[4] N/A for NONE

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2002
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
02-II-1 Accounting Records: Section 20 of OMB Circular A-102 of the Common Rule, requires adequate accounting records should be maintained for each federal program. We noted certain differences in reported transactions like subsidiary ledgers, payroll and obligations control accounts.	Municipality Finance Personnel informed that proper follow up will be made on the supervision of key personnel, in order to correct the account balances.	Written instructions was given to Ms. Lissette Toledo, Director of the Office of Integral Accounting, to assist, supervise and identify Miss. Nancy López needs to correct this situation. Our municipality started a special project to correct the accounts balances. It dateline is April 30, 2003. This project will provide proper information to ensure correct use of the accounting system in accordance with federal regulation.
02-III-1 Allowable Costs Principle: During our examination we noted that Section 8 had advanced $278,612 funds to Hopwa program without HUD authorization.	Municipality officials indicated that strong collection efforts have been made from the grantor to no avail. Therefore, the program is considering legal actions against the grantor.	We are sending a follow up letter to the Municipality of San Juan Housing Department (SJHD) to request the documentation about this debt. Also, we will coordinate a meeting with the SJHD staff to resolve this situation. If they fail to provide the information we will refer this case to the Legal Division for the correspondences actions.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2002
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
02-III-2 Cash Management: The OMB Circular A-133 (complince C), requires that 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. Also, interest earned, over $100 related to CDBG and USDA and $250 to Head Strart have not been reimbursed to the federal agencies.	For Head Start, the administrative personnel is holding monthly meetings to discuss, review and improve control over the payments procedures. For USDA and CDBG, Management will enforce internal control procedures to avoid high cash balances.	Head Start: Instructions was given to the accountant to verify and if there were any earn interest to return it to the Federal Agency. CDBG : We will avoid this situation by having a cash balances in the bank account of $5,000. 00 or less. The requesting of funds will be made when documents are pre-audit for payments.
02-III-3 Period of Availability of Federal Funds: Entities should liquidate all obligation incurred under the award not later than 90 days after the end of the funding period. For Head Start and Early Head Start program, we found that the obligations was not paid within 90 days.	The administrative personnel is holding monthly meetings to discuss, review and improve control over the payments procedures. In addition, management requested an extension of time to pay those obligations over 90 days due but, has not received response from the federal agency.	Written instructions was given to Ms. Lissette Toledo, Director of the Office of Integral Accounting, to assist, supervise, and identify Miss. Nancy López needs to correct this situation.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2002
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
02-III-4 Earmarking Test: The OMB Circular A-133 (compliance G) states that earmarking percentages have to be followed for expenditures. Based on our examination, we noted, that the administrative expenditures files were incomplete to determine the appropriate percentage of Administration expenditures.	The program officials informed that they will follow up and complete administrative expenditures files to support the Administrative expenditures percentage required by the federal regulations.	Instructions was given to accountant to identify and complete the administrative cost allocation. We will be following up to this information.
02-III-5 Equipment Management: During our examination, we were not provided with an accurate detail of inventory accounting records that reconciled with physical inventory records related to Head Start, Early Head Start and CDBG. Also, an inventory record, or investment in the "Acueducto Municipal" financed by an USDA Rural Development loan, was not available for examination.	A new director was hired in February, 2003, to update the capital assets accounting records for all funds in order to comply with GASB 34.	Inventory is taken in all the programs annually. At the present time we are updating computerize accounting system. CDBG will implement training and procedures to ensure that property books and the accounting books reconcile. USDA will ensure proper supervision for accounting record on equipment. Also, will establish a schedule for physical inventory during the second quarter of this year to update our property record.

Municipality of Carolina
Financial Statements Findings
Single Audit for the year ended June 30 2002
Corrective Action Plan

Finding	Management Response	Corrective Action Plan
02-III-6 Reporting: The OMB Circular A-133 requires that certain financial reports need to be submitted periodically to required federal agency. For Head Start and Early Head Start FRS 272 for quarter ended on March 31, 2002, and June 30, 2002 were submitted 13 and 6 days, respectively, later than program regulations due dates.	Management informed that proper supervision will be followed to ascertain compliance with programs regulations.	The municipality management assigned key personnel to have monthly meetings between the Head Start Program Director and Accounting Program Director, to verify and correct the financial data in order to comply with compliance L of the OMB C-133. Also, for USDA Loan management will correct the situation for the financial data.

OFIC. DEL COMISIONADO
ASUNTOS MUNICIPALES
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