

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE LAJAS

AUDITORIA 2000-01

30 DE JUNIO DE 2001

MUNICIPALITY OF LAJAS, PUERTO RICO

**INDEPENDENT AUDITORS' REPORTS ON GENERAL
PURPOSE COMBINED FINANCIAL STATEMENTS**

JUNE 30, 2000

**(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT)**

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MUNICIPALITY OF LAJAS, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
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JUNE 30,2000
(WITH THE ADDITIONAL REPORTS AND INFORMATION
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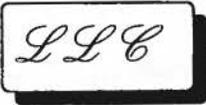
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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

*To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Lajas, Puerto Rico*

We have audited the accompanying general-purpose financial statements of the **Municipality of Lajas, Puerto Rico**, as of and for the year ended June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the **Municipality of Lajas Puerto Rico's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Lajas, Puerto Rico**, as of June 30, 2000, and the results of its operations and the changes in the fund balances for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated *December 17, 2000* on our consideration of the **Municipality of Lajas, Puerto Rico's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

INDEPENDENT AUDITORS' REPORT

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Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Lajas, Puerto Rico**, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, , Local Governments, and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Cayey, Puerto Rico
December 17, 2000

Stamp Number 1637504
was affixed to the record
copy of this report.



License No. 2662
Expires on December 1, 2002

COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

MUNICIPALITY OF LAJAS, PUERTO RICO

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS {MEMORANDUM ONLY}
	General	Special Revenue	Capital Projects	Debt Service	General Long-Term Debt	General Fixed Assets	
ASSETS AND OTHER DEBITS							
Cash and Investment (Notes 1F and 2).....	\$527,147	\$204,309	\$287,151	\$ --	\$ --	\$ --	\$1,018,607
Cash with Fiscal Agent	--	--	272,749	912,294	--	--	1,185,043
Receivables:							
Property Tax	--	--	--	22,132	--	--	22,132
Other Funds (Note 3)	--	--	51,095	--	--	--	51,095
Federal Grants (Note 10)	--	23,233	--	--	--	--	23,233
Others	67,990	--	--	--	--	--	67,990
Property, Plant and Equipment (Note 4)	--	--	--	--	--	19,680,463	19,680,463
Amount Available in Debt Service Fund (Note 7) ...	--	--	--	--	934,426	--	934,426
Amount to be Provided for Retirement of General Long-Term Debt (Note 6)	--	--	--	--	695,574	--	695,574
Amount to be Provided for Pension Benefit Obligation (Note 11)	--	--	--	--	1,691,643	--	1,691,643
Amount to be Provided for Estimated Landfill Closing Costs (Note 12)	--	--	--	--	409,946	--	409,946
Amount to be Provided through Property Taxes Collection for Retirement of Unamortized Advance of Property Taxes (Note 8)	--	--	--	--	31,083	--	31,083
Amount to be Provided for Payment of Vested Compensated Absences (Note 1 H)	--	--	--	--	662,185	--	662,185
TOTAL ASSETS AND OTHER DEBITS	\$595,137	\$227,542	\$610,995	\$934,426	\$4,424,857	\$19,680,463	\$26,473,420

continue

COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2000

MUNICIPALITY OF LAJAS, PUERTO RICO

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Capital Projects	Debt Service	General Long-Term Debt	General Fixed Assets	
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Accounts Payable and Accrued Liabilities	\$58,884	\$25,569	\$ --	\$ --	\$ --	\$ --	\$84,453
Due to:							
Other Funds (Note 3)	51,095	--	--	--	--	--	51,095
Other Governmental Units (Note 5)	--	--	--	--	--	--	0
Others	31,153	--	--	--	--	--	31,153
Deferred Revenues:							
Volume of Business Tax (Note 9)	373,032	--	--	--	--	--	373,032
Federal Programs	--	201,973	--	--	--	--	201,973
Long - Term Debts:							
General Obligations Bonds (Note 6)	--	--	--	--	1,630,000	--	1,630,000
Note Obligation (Note 6)	--	--	--	--	--	--	0
Unfunded Pension Benefit							
Obligation (Note 11)	--	--	--	--	1,691,643	--	1,691,643
Estimated Landfill Closing (Note 12)	--	--	--	--	409,946	--	409,946
Unamortized Property Taxes (Note 8)	--	--	--	--	31,083	--	31,083
Vested Compensated Absences							
(Note 1 H)	--	--	--	--	662,185	--	662,185
TOTAL LIABILITIES	\$514,164	\$227,542	\$ --	\$ --	\$4,424,857	\$ --	\$5,166,563

continue

COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

MUNICIPALITY OF LAJAS, PUERTO RICO

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Capital Projects	Debt Service	General Long-Term Debt	General Fixed Assets	
LIABILITIES AND FUND EQUITY							
FUND EQUITY							
Investment in Property, Plant and Equipment (Note 4)	\$ --	\$ --	\$ --	\$ --	\$ --	\$19,680,463	\$19,680,463
Fund Balance:							
Reserved for Encumbrances (Note 1 D)	129,844	--	--	--	--	--	129,844
Unreserved:							
Designated for Debt Service	--	--	--	934,426	--	--	934,426
Designated for Subsequent Years							
Expenditures	82,491	--	610,995	--	--	--	693,486
Undesignated	(131,362)	--	--	--	--	--	(131,362)
TOTAL FUND EQUITY	80,973	--	610,995	934,426	--	19,680,463	21,306,857
TOTAL LIABILITIES AND FUND EQUITY	\$595,137	\$227,542	\$610,995	\$934,426	\$4,424,857	\$19,680,463	\$26,473,420

The accompanying notes to general purpose financial statements are an integral part of this statement

**COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Capital Projects	Debt Service	
REVENUES					
Property Taxes (Note 8)	\$1,552,241	\$ --	\$ --	\$260,243	\$1,812,484
Volume of Business Taxes (Note 9)	446,167	--	--	--	446,167
Federal Assistance (Note 10)	--	1,921,283	--	--	1,921,283
Intergovernmental (Note 10)	2,790,690	--	718,526	--	3,509,216
Rent	511,395	--	--	--	511,395
Miscellaneous	740,804	--	--	--	\$740,804
TOTAL REVENUES	6,041,297	1,921,283	718,526	260,243	8,941,349
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	813,533	--	--	--	813,533
General Government	1,928,319	220,853	--	--	2,149,172
Public Safety	23,859	--	--	--	23,859
Public Works	2,667,799	1,512,902	--	--	4,180,701
Solid Waste Disposal (Note 12)	2,988	--	--	--	2,988
Culture and Recreation	233,175	--	--	--	233,175
Human Services and Welfare	745,819	187,528	--	--	933,347
Urban Development	209,949	--	605,080	--	815,029
Debt Service:					
Principal Retirement	--	--	--	66,000	66,000
Interests Payment	--	--	--	90,723	90,723
TOTAL EXPENDITURES	6,625,441	1,921,283	605,080	156,723	9,308,527
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(584,144)	--	113,446	103,520	(367,178)
Fund Balances at Beginning of Year	665,117	--	497,549	830,906	1,993,572
FUND BALANCES AT END OF YEAR	\$80,973	\$ --	\$610,995	\$934,426	\$1,626,394

The accompanying notes to general purpose financial statements are an integral part of this statement.

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE -- BUDGET
AND ACTUAL -- GENERAL AND DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

	GENERAL			DEBT SERVICE		
	Budget	Actual	Variance Favorable {Unfavorable}	Budget	Actual	Variance Favorable {Unfavorable}
REVENUES						
Property Taxes Advances	\$1,492,699	\$1,552,241	\$ --	\$302,600	\$236,296	(\$66,304)
Volume of Business Taxes	407,531	446,167	38,636	--	--	--
Intergovernmental	2,830,909	2,686,054	(144,855)	--	--	--
Rents	469,023	511,395	42,372	--	--	--
Miscellaneous	811,332	740,804	(70,528)	--	--	--
TOTAL REVENUES	6,011,494	5,936,661	(134,375)	302,600	236,296	(66,304)
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Assembly	873,888	856,474	17,414	--	--	--
General Government:						
Finance	1,184,298	1,141,813	42,485	--	--	--
Personnel	156,849	154,107	2,742	--	--	--
Insurance	76,406	76,342	64	--	--	--
Public Safety	24,264	24,083	181	--	--	--
Public Works	2,873,818	2,752,199	121,619	--	--	--
Culture and Recreation	235,008	234,217	791	--	--	--
Human Services and Welfare	751,684	747,054	4,630	--	--	--
Urban Development	211,274	209,949	1,325	--	--	--
Debt Service	--	--	--	302,600	156,724	145,876
TOTAL EXPENDITURES AND ENCUMBRANCES	6,387,489	6,196,238	191,251	302,600	156,724	145,876
Excess of Revenues Over (Under) Expenditures and Encumbrances	(\$375,995)	(\$259,577)	\$56,876	\$ --	\$79,572	\$79,572

continue

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCE -- BUDGET AND ACTUAL -- GENERAL AND DEBT SERVICE FUNDS FOR THE YEAR ENDED JUNE 30, 2000

MUNICIPALITY OF LAJAS, PUERTO RICO

	GENERAL			DEBT SERVICE		
	<u>Budget</u>	Actual	Variance Favorable {Unfavorable}	<u>Budget</u>	Actual	Variance Favorable {Unfavorable}
OTHER FINANCING SOURCES						
Excess of Prior Years	\$375,995	--	--	--	--	--
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ --</u>	(\$259,577)	<u>(\$259,577)</u>	<u>\$ --</u>	\$79,572	<u>\$79,572</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		(10,410)			--	
Other GAAP Adjustment to Revenues - Property Tax		--			23,948	
Other GAAP Adjustment to Revenues		(210,391)			--	
Net Activity in Non Budgeted Items		(44,942)			--	
Accrual Liability for Certain Debts Not Recognized in Budget		(58,884)			--	
Fund Balance at Beginning of Year		665,177			830,906	
FUND BALANCE AT END OF YEAR		<u>\$80,973</u>			<u>\$934,426</u>	

The accompanying notes to general purpose financial statements are an integral part of this statement

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the **Municipality of Lajas, Puerto Rico (Municipality)** conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The **Municipality** was founded in the year 1883, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". 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 the Commonwealth of Puerto Rico. The legislative body consists of 14 assemblymen also elected in the general elections of Puerto Rico for a four year period.

The **Municipality** provides services such as: health, public works, sanitation, aid and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The general purpose financial statements of the **Municipality** have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general purpose financial statements presents the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the **Municipality**. This includes the organizational units governed by the Executive officers and members of the Municipal Assembly of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units which may or may not fall within the **Municipality's** oversight- and control and, as such, be included within the **Municipality's** financial statements. The basic criterion for including a component unit within the **Municipality's** reporting entity is the oversight responsibility by Lajas' Municipal Assembly.

(continue)

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Under current GAAP, the specific used by the **Municipality** for establishing oversight responsibility are:

Manifestations of Oversight Responsibility:

Selection of Unit's Governing Board
Management Designation of the Unit
Significant influence over Operations

Accountability for Fiscal Matters:

Budgetary Authority
Surplus/Deficit
Responsibility for Debt
Fiscal Management
Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

Scope of public service of the unit;
Any other relationship which, in substance, implies control or dependency.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts group included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

B. Basis of Presentation

The financial transactions of the **Municipality** are recorded in individual funds and account group. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds and accounts groups are reported by generic classification within the financial statements.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis of accounting includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

(continue)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

GOVERNMENTAL FUNDS

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 financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the **Municipality's** governmental fund types:

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

Special Revenue Fund - The special revenue fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Fund - The capital project funds is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets, if a stewardship nature are transferred to the general fixed assets account group.

ACCOUNT GROUPS

Account groups are not funds; they do not reflect available financial resources and related liabilities, but are an accounting record of the general fixed assets and general long-term obligations, respectively. The following is a description of the Account Groups of the **Municipality**:

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

(continue)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

GOVERNMENTAL FUNDS (continuation)

General Fixed Assets Account Group - The general fixed assets account group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the Municipality. Public domain ("infrastructure") fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest an financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. 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 liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid sick leave and other employee amounts which are not accrued (Note 1H); and (2) principal and interest on long-term debt, which is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, monies must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. For the second type, monies are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded. For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria. Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

(continue)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Encumbrances

Encumbrance accounting is employed in the governmental fund types. Under the encumbrance system all purchases orders, contracts and other commitments issued for goods and services not received at year-end are recorded in order to reserve that portion of the applicable appropriation. When the appropriations lapse at year-end these will be honored by the **Municipality**. Under generally accepted accounting principles, encumbrances outstanding at year end are reported as reservations of fund balance and they do not constitute expenditures or liabilities since the commitments will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

E. Budgetary Data

The **Municipality's** Annual Budget represents departmental appropriations recommended by the Mayor and the means of financing them. The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general purpose financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Assembly.
3. The Commissioner of Municipal Affairs examines the budget to verify whether it comply with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establish by the Law.
4. Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary amendments during the fiscal year and are reflected in the budget information included in the general purpose financial statements.

(continue)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

E. **Budgetary Data** (continuation)

The accompanying combined financial statement of revenues, expenditures and encumbrances and changes in fund balance budget and actual, are presented on the budgetary basis to enhance comparability, since the budgetary basis followed by **Municipality** differs from generally accepted accounting principles (**GAAP**). The principal differences between the budgetary basis and **GAAP** are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under **GAAP**.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under **GAAP** (See Note 8).
3. Interfund transactions of the general and special revenue funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary basis.

All unencumbered appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary basis.

The special funds of the special revenue fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Assistance Programs included in the capital projects and special revenue funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

F. **Cash and Investment**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as a revenue in the general fund.

(continue)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

G. **Inventories**

The general, special revenue and capital projects funds, purchase office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as an expenditure in the appropriate fund and the inventory is not recorded in the general purpose financial statements.

H. **Vested Compensated Absences**

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (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 of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrues a liability for compensated absences which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements established by GASB Number 16, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources is included in the general long-term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources (\$58,884) is included as an accrued liability in the general fund.

I. **Insurance**

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the **Municipality**.

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(2) CASH AND INVESTMENT

The **Municipality** follows the practice of pooling cash of all funds, except from restricted funds held by the Municipal Revenue Collection Center for repayment of principal and interests on general long-term obligations, and federal financial assistance.

Deposits were with the contracted depository bank in interest bearing accounts which were secured at balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage,, up to a maximum of \$100,000. Deposits in excess of \$100,000 are collateralized by bank securities to properly safeguard such funds. The **Municipality** maintained \$453,600 in certificates of deposits as of June 30, 2000, \$400,000 from General Fund and \$53,600 from Capital Project Fund. These certificates consists of the following:

Issued by	Certificate of Deposit Number	Principal Amount	Rate	Expiration Date
Westernbank	2200710016	\$100,000	6.40%	07/18/00
Westernbank	2200710015	100,000	6.40%	07/18/00
Westernbank	2200710012	53,600	5.85%	07/01/00
Westernbank	2200710010	100,000	6.10%	07/12/00
Westernbank	2200710009	100,000	6.10%	07/12/00
TOTAL		\$453,600		

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(3) INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2000 are as follows:

<u>Funds</u>	I n t e r f u n d	
	<u>Receivable</u>	<u>Payable</u>
General	\$ --	\$88,723
Capital Project:		
Legislative Awards	88,723	--
TOTAL	<u>\$88,723</u>	<u>\$88,723</u>

(4) PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

<u>Description</u>	<u></u>
Land	\$1,293,910
Buildings and Improvements .	13,959,920
Bridges and Roads	1,798,199
Motor Vehicles	2,025,851
Furniture and Fixtures	602,583
TOTAL	<u>\$19,680,463</u>

(5) DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2000, balance due to other governmental units of the general fund for services rendered to the **Municipality**, consists of \$98,761 owed to the Electric Power Authority. The **Municipality** entered into a payment plan for such amount, although there is a pending claim against the Authority for a larger amount.

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(6) GENERAL AND SPECIAL OBLIGATIONS - BONDS AND NOTE

The principal long-term obligations of the **Municipality** are general obligation bonds issued to finance the construction and improvements of public facilities and special obligation note issued for acquisitions of equipment.

The **Municipality's** general and special obligation long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund (See Note 7).

General and special obligations as of June 30, 2000, are comprised of the following individual issues:

<u>Description</u>	<u>Amount</u>
<u>General Obligation - Bonds:</u>	
\$435,000, Series 1994, payable in annual installments ranging from \$15,000 to \$50,000, excluding interest, through July 1, 2008; interest at 6.805%	\$330,000
\$415,000, Series 1996, payable in annual installments ranging from \$10,000 to \$40,000, excluding interest, through July 1, 2013; interest at 5.400%	375,000
\$1,000,000, Series 1996, payable in annual installments ranging from \$24,000 to \$66,000, excluding interest, through January 1, 2021; interest at 4.50%	925,000
TOTAL	<u>\$1,630,000</u>

The annual requirements to amortize the general and special long-term debt outstanding as of June 30, 2000 are as follows:

<u>Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2001	67,000	87,066	154,066
2002	74,000	83,150	157,150
2003	80,000	78,799	158,799
2004	86,000	74,035	160,035
2005	88,000	68,985	156,985
Thereafter	1,235,000	483,868	1,718,868
TOTAL	<u>\$1,630,000</u>	<u>\$875,903</u>	<u>\$2,505,903</u>

(continue)

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(6) GENERAL AND SPECIAL OBLIGATIONS - BONDS AND NOTE (continuation)

The following is a summary of changes in long-term debt obligation for the year ended June 30, 2000:

	(A)	(B)	(C)	(D)
	Balance July 1, 1999	New Issues	Retirement and Current Maturities	(A+B-C) Balance June 30, 2000
General	\$1,696,000	--	\$66,000	\$1,630,000
Special	--	--	--	--
Total	<u>\$1,696,000</u>	<u>--</u>	<u>\$66,000</u>	<u>\$1,630,000</u>

(7) DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 8). These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligation bonds and note issued by the **Municipality** (See Note 6). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

(8) PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

(continue)

(8) PROPERTY TAXES (continuation)

The tax rate per annum is 7.83% for real property and 5.83% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 6.80% and 4.80%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 5.80% and 3.80%, respectively, 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 1.00% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 6). 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.

The Commonwealth of Puerto Rico grants a complete real property tax exoneration on the first \$15,000 of assessed valuation on residential units occupied by their owners. 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. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

For retailers with an annual net sales volume of less than \$150,000 a complete exemption from personal property taxes up to an assessment value of \$50,000 is granted by the **Municipality**.

The Municipal Revenue Collection Center advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the general fund and in the general long-term debt account group as an increase in related debt.

The revenue for the basic contribution over property not exonerated is recorded in the general fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center. Due to the fact that collections are applied to the advances pending to be paid, the **Municipality** records an expenditure in the general fund and a corresponding reduction in the balance reported in the general long-term debt account group.

The amortization of the unamortized advance of property taxes has a balance of \$31,083 at end of year but the detail of the debt is not available due to that this information will be audited by an external auditors firm.

FOR THE YEAR ENDED JUNE 30, 2000

(9) VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by five business days after April 15 of each year.

The tax rates are as follows:

- a. 1.50% for financial institutions.
- b. 1.25% in the fiscal year, and 1996-97 and 1.50% for subsequent fiscal years for savings and loan organizations.
- c. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the general fund.

(10) INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consists primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Power Authority and the Puerto Rico Telephone Company, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, general subsidy for urban development and capital improvements Intergovernmental revenues are accounted for through the general fund except for those directly related to urban development and capital improvements, which are accounted for through the special revenue and the capital project funds. Federal Financial Assistance is recorded in the special revenue fund.

(11) EMPLOYEE'S RETIREMENT PLAN

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. The **Municipality** contributes to the system 9.275% of the participating employee's salaries. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 or more years of service are as follows:

<u>Years of Service</u>	<u>Participant's Age</u>	<u>Pension Benefits</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	55 or more	75% of the average of the three years of highest salary during the employee's service period.

The pension benefit for participants retire with less than 30 years of service is computed at the rate of 1 1/2% of their average compensation of each year of credit service for the first 20 years and 2% for each year of credited service for the remaining years.

The System also provides for death and disability benefits established by statute. The present value of the accrued benefits and the assets of the System pertaining to the participant employees was available as of June 30, 1998. A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 8.5%.
- b. Future pension payments reflect an assumption of a 5% salary increase.

The total pension expenditures for the year ended at June 30, 2000 was approximately \$248,598. Total unfunded pension benefit obligation applicable to the **Municipality's** employees is \$1,691,643 at June 30, 2000 as follow:

Unfunded Pension Benefit Obligation:

Pension Benefit Obligation	\$2,862,777
Net Assets available for benefits, as cost	<u>(1,171,134)</u>
Unfunded Pension Benefit Obligation	<u><u>\$1,691,643</u></u>

(12) ESTIMATED MUNICIPAL, SOLID WASTE LANDFILL CLOSING COSTS

According to the Environmental Protection Agency's (EPA) regulations, the **Municipality** must follow certain closure functions and postclosure monitoring and maintenance procedures in order to obtain the right to operate a new landfill. In addition, the **Municipality** due adopted the **GASB Number 18** in order to comply with these regulations.

As of June 30, 2000, the **Municipality** has one active landfill which has an estimated remaining useful life of four years. As of June 30, 2000, the **Municipality** has \$409,946 of estimated closing costs in the General Long-Term Debt Account Group. The **Municipality** will provide, within its operational budget, after next two years, the amount of closure care cost based on the closing study. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

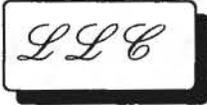
END OF NOTES

PART II

REPORT RELATED TO GENERAL

COMBINED FINANCIAL STATEMENTS

OF THE REPORTING ENTITY



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

**To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Lajas, Puerto Rico**

We have audited the general purpose financial statements of **Municipality of Lajas, Puerto Rico**, as of and for the year ended June 30, 2000, and have issued our report thereon dated December 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **Municipality of Lajas, Puerto Rico's** general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item B-1. We also noted certain immaterial instances of noncompliance that we have reported to management of **Municipality of Lajas, Puerto Rico** in a separate letter dated December 17, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Municipality of Lajas, Puerto Rico's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 **Municipality of Lajas, Puerto Rico's** ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item B-1.

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

Page 2

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 general purpose 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 none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of **Municipality of Lajas, Puerto Rico** in a separate letter dated December 17, 2000.

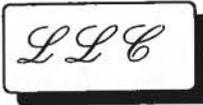
This report is intended solely for the information of management, Municipal Assembly, and Office of the Commissioner of Municipal Affairs (State Agency). However, this report is a matter of public record and its distribution is not limited.

Cayey, Puerto Rico
December 17, 2000

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

**To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Lajas, Puerto Rico**

Compliance

We have audited the compliance of **Municipality of Lajas, Puerto Rico**, 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, 2000. **Municipality of Lajas, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **Municipality of Lajas, Puerto Rico's** management. Our responsibility is to express an opinion on **Municipality of Lajas, Puerto Rico's** compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 NonProfit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Lajas, Puerto Rico's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **Municipality of Lajas, Puerto Rico's** compliance with those requirements.

As described in item C-1 in the accompanying schedule of findings and questioned costs, **Municipality of Lajas, Puerto Rico**, did not comply with requirements of keeping accounting record on accrual basis that are applicable to its U.S. Housing and Urban Development SBGP Program. Compliance with such requirements is necessary, in our opinion, for **Municipality of Lajas, Puerto Rico** to comply with requirements applicable to that program.

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

Page 2

In our opinion, except for the noncompliance described in the preceding paragraph, **Municipality of Lajas, Puerto Rico**, 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, 2000. The results of our auditing procedures also disclosed other 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 schedule of findings and questioned costs as item C-1

Internal Control Over Compliance

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

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

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

This report is intended solely for the information of management, Municipal Assembly, and Office of the Commissioner of Municipal Affairs (State Agency). However, this report is a matter of public record and its distribution is not limited.

Cayey, Puerto Rico
December 17, 2000

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PART III

*REPORT AND SUPPORTING SCHEDULES TO
THE FEDERAL FINANCIAL ASSISTANCE PROGRAMS*

**SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

Federal Grantor/Pass-Through Grantor / Program Title	Federal CFDA Number	Pass- through Grantor's Number	Federal Amount Award	Expenditures
U.S. Department of Housing and Urban Development				
Direct Programs:				
Section 8 Existing	14.857			\$19,753
Section 8 Vouchers	14.855			132,501
Total Section 8				<u>152,254</u>
Indirect Programs:				
Pass Through State - Office of Commissioner of Municipal Affairs				
State Block Grant Program (SBGP)				
	14.228	99-FD	488,750	84,130
		98-FD-FC	684,681	415,375
		97-AF-FD	605,000	57,931
		94-FD	350,000	<u>21,947</u>
Total State Block Grant Program (SBGP)				<u>579,383*</u>
Total Department of Housing and Urban Development				731,637
Program Income	N/A			51,971
U.S. Department of Agriculture Rural Development Grant	10.769		3,636,782	497,328*
Federal Emergency Management Agency	83.534			<u>640,347*</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>\$1,921,283</u></u>

***DENOTE MAJOR PROGRAM**

See accompanying notes to schedule of federal financial assistance

**NOTES TO SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

(1) GENERAL

The accompanying schedule of federal financial assistance presents the activity of all federal financial assistance programs of the **Municipality Of Lajas, Puerto Rico**. The **Municipality** reporting entity is defined in Note (1) (A) to the general purpose financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

(2) FEDERAL CFDA 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.

(3) BASIS OF ACCOUNTING

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

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

END OF NOTES

PART IV

FINDING AND QUESTIONED COST

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the **Municipality of Lajas, Puerto Rico**.
2. One reportable condition disclosed during the audit of the general purpose financial statements are reported in the *Independent Auditors' Report On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instance of noncompliance material to the general purpose financial statements of the **Municipality of Lajas, Puerto Rico** was disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal award programs is reported in the *Independent Auditors' Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With Omb Circular A-133*. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for the **Municipality of Lajas, Puerto Rico** expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the **Municipality of Lajas, Puerto Rico** are reported on Part C of this Schedule.
7. The programs tested as major programs were U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. State Block Grant Program CFDA No.14.228 and U. S. DEPARTMENT OF AGRICULTURE. Rural Development Grant CFDA No. 10.769.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The **Municipality of Lajas, Puerto Rico** was not determined to be a low-risk auditee.

**B. FINDING -FINANCIAL STATEMENTS AUDIT
REPORTABLE CONDITIONS**

1. Accounting Records

CONDITION: The **Municipality** accounting records were kept on cash basis, instead of, accrual basis as required by GAAP.

CRITERIA: The General Accepted Accounting Principles.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

CAUSE OF CONDITION: The **Municipality** did not maintain the accounting records on a basis to assure that information are complete and accurate.

EFFECT OF CONDITION: The **Municipality** is not in compliance with GAAP pronouncements.

RECOMMENDATION: We recommend to management to keep the financial information necessary to convert to accrual basis the financial statements, which are on cash basis, to comply with GAAP requirements.

RESPONSE: The **Municipality** accounting system will be revised; even trough, we are aware that our records have sufficient information to convert them to accrual basis. The accounting system used is that recommend by the Office of the Commissioner of Municipal Affairs. The State Government is developing a uniform accounting system that will be implemented in all municipalities. This new system will be provide for compliance with all the governmental accounting principle requirements.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Questioned
Costs

1. U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, State Block Grant Program (SBGP) - CFDA No. 14.228; Pass Through State Office of Commissioner of Municipal Affairs. Also applicable to U. S. DEPARTMENT OF AGRICULTURE, Rural Development Grant - CFDA 10.769.

Reportable Condition: As discussed at B.1., the **Municipality** accounting records were kept on cash basis, instead of, accrual basis as required by GAAP. The **Municipality** is not in compliance with GAAP pronouncements. We recommend to management to keep the financial information necessary to convert to accrual basis the financial statements, which are on cash basis, to comply with GAAP requirements.

None

**STATUS OF PRIOR AUDIT'S FINDINGS
AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

MUNICIPALITY OF LAJAS, PUERTO RICO

Municipal Operations

<u>Fiscal Year of Audit Report</u>	<u>Finding</u>	<u>Comments</u>
1992 to 1999	The Municipality accounting records were kept on cash basis, instead of, accrual basis.	Situation Still Prevail.

