

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

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

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DE ASUNTOS MUNICIPALES
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MUNICIPALITY OF LAJAS, PUERTO RICO

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

JUNE 30, 2002

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

MUNICIPALITY OF LAJAS, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
GENERAL PURPOSE COMBINED FINANCIAL STATEMENTS
JUNE 30,2002
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT)

TABLE OF CONTENTS

	<u>Pages</u>
Part I - Financial:	
Independent Auditors' Report on General Purpose Combined Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	1 - 2
General Purpose Combined Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Group	3 - 5
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types	6
Combined Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - General and Debt Service Funds	7 - 8
Notes to the General Purpose Financial Statements	9 - 23
 Part II - Report Related to General Purpose 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	24 - 25
 Part III - Report and Supporting Schedules to the Federal Financial Assistance Programs:	
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	26 - 27

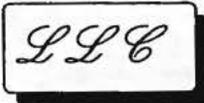
Schedule of Federal Financial Assistance	28
Notes to Schedule of Federal Financial Assistance	29

Part IV - Findings and Questioned Costs:

Schedule of Findings and Questioned Costs	30 - 31
Status of Prior Audit's Findings and Questioned Costs	32

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, 2002, 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, 2002, 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 11, 2002* 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

Page 2

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 11, 2002

Stamp Number 1837321
was affixed to the record
copy of this report.



James J. Celi

License No. 2662
Expires on December 1, 2005

COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

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).....	\$199,288	\$429,410	\$779,473	\$ --	\$ --	\$ --	\$1,408,171
Cash with Fiscal Agent	880,022	--	752,560	1,154,295	--	--	2,786,877
Receivables:							
Property Tax	--	--	--	16,784	--	--	16,784
Other Funds (Note 3)	--	--	3,599	--	--	--	3,599
Federal Grants (Note 10)	--	143,483	--	--	--	--	143,483
Others	809,449	--	--	--	--	--	809,449
Property, Plant and Equipment (Note 4)	--	--	--	--	--	19,920,347	19,920,347
Amount Available in Debt Service Fund (Note 7)	--	--	--	--	1,171,079	--	1,171,079
Amount to be Provided for Retirement of General Long-Term Debt (Note 6)	--	--	--	--	2,376,921	--	2,376,921
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)	--	--	--	--	--	--	--
Amount to be Provided for Payment of Vested Compensated Absences (Note 1 H)	--	--	--	--	1,022,339	--	1,022,339
TOTAL ASSETS AND OTHER DEBITS	\$1,888,759	\$572,893	\$1,535,632	\$1,171,079	\$4,980,285	\$19,920,347	\$30,068,995

continue

COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

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	\$114,289	\$144,421	\$ --	\$ --	\$ --	\$ --	\$258,710
Due to:							
Other Funds (Note 3)	3,599	--	--	--	--	--	3,599
Other Governmental Units (Note 5)	89,072	--	--	--	--	--	89,072
Others	37,358	--	--	--	--	--	37,358
Deferred Revenues:							
Volume of Business Tax (Note 9)	375,113	--	--	--	--	--	375,113
Federal Programs	--	428,472	--	--	--	--	428,472
Long - Term Debts:							
General Obligations Bonds (Note 6)	--	--	--	--	2,259,000	--	2,259,000
Note Obligation (Note 6)	--	--	--	--	1,289,000	--	1,289,000
Estimated Landfill Closing (Note 12)	--	--	--	--	409,946	--	409,946
Unamortized Property Taxes (Note 8)	--	--	--	--	--	--	--
Vested Compensated Absences (Note 1 H)	--	--	--	--	1,022,339	--	1,022,339
TOTAL LIABILITIES	\$619,431	\$572,893	\$ --	\$ --	\$4,980,285	\$ --	\$6,172,609

continue

COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

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)	\$ --	\$ --	\$ --	\$ --	\$ --	\$19,920,347	\$19,920,347
Fund Balance:							
Reserved for Encumbrances (Note 1 D)	203,600	--	--	--	--	--	203,600
Unreserved:							
Designated for Debt Service	--	--	--	1,171,079	--	--	1,171,079
Designated for Specific Fund Purposes	1,039,761	--	1,535,632	--	--	--	2,575,393
Undesignated	25,967	--	--	--	--	--	25,967
TOTAL FUND EQUITY	1,269,328	--	1,535,632	1,171,079	--	19,920,347	23,896,386
TOTAL LIABILITIES AND FUND EQUITY	\$1,888,759	\$572,893	\$1,535,632	\$1,171,079	\$4,980,285	\$19,920,347	\$30,068,995

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, 2002

MUNICIPALITY OF LAJAS, PUERTO RICO

	GOVERNMENTAL FUND TYPES				TOTALS {MEMORANDUM ONLY}
	General	Special Revenue	Capital Projects	Debt Service	
REVENUES					
Property Taxes (Note 8)	\$1,987,279	\$ --	\$ --	\$289,956	\$2,277,235
Volume of Business Taxes (Note 9)	522,766	--	--	--	522,766
Federal Assistance (Note 10)	--	1,783,766	--	--	1,783,766
Intergovernmental (Note 10)	4,220,342	--	813,963	--	5,034,305
Rent	470,755	--	--	--	470,755
Miscellaneous	742,271	--	--	--	\$742,271
TOTAL REVENUES	7,943,413	1,783,766	813,963	289,956	10,831,098
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,031,823	--	--	--	1,031,823
General Government	2,036,342	167,054	--	--	2,203,396
Public Safety	54,916	220,476	--	--	275,392
Public Works	3,448,834	938,326	--	--	4,387,160
Solid Waste Disposal (Note 12)	54,562	--	--	--	54,562
Culture and Recreation	225,832	--	--	--	225,832
Human Services and Welfare	720,062	457,910	--	--	1,177,972
Urban Development	187,352	--	485,250	--	672,602
Debt Service:					
Principal Retirement	--	--	--	145,000	145,000
Interests Payment	--	--	--	112,385	112,385
TOTAL EXPENDITURES	7,759,723	1,783,766	485,250	257,385	10,286,124
Excess of revenues over expenditures.....	183,690	--	328,713	32,571	544,974
OTHER FINANCING SOURCES:					
Proceeds of General Obligation Bonds and Notes....	880,000	--	770,000	--	1,650,000
Fund Balances at Beginning of Year	205,638	--	436,919	1,138,508	1,781,065
FUND BALANCES AT END OF YEAR	\$1,269,328	\$ --	\$1,535,632	\$1,171,079	\$3,976,039

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, 2002

MUNICIPALITY OF LAJAS, PUERTO RICO

	GENERAL			DEBT SERVICE		
			Variance			Variance
REVENUES						
Property Taxes Advances	\$1,967,262	\$1,987,279	20,017	\$252,857	\$287,629	\$34,772
Volume of Business Taxes	516,000	522,766	6,766	--	--	--
Intergovernmental	3,940,525	3,815,332	(125,193)	--	--	--
Rents	480,839	470,755	(10,084)	--	--	--
Miscellaneous	458,000	742,271	284,271	--	--	--
TOTAL REVENUES	7,362,626	7,538,403	175,777	252,857	287,629	34,772
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Assembly	1,125,881	1,094,605	31,276	--	--	--
General Government:						
Finance	1,386,026	1,371,825	14,201	--	--	--
Personnel	137,707	136,751	956	--	--	--
Insurance	142,047	116,570	25,477	--	--	--
Public Safety	65,013	54,121	10,892	--	--	--
Public Works	3,554,497	3,371,839	182,658	--	--	--
Culture and Recreation	230,603	226,891	3,712	--	--	--
Human Services and Welfare	730,273	721,651	8,622	--	--	--
Urban Development	241,979	241,286	693	--	--	--
Debt Service	--	--	--	252,857	257,385	(4,528)
TOTAL EXPENDITURES AND ENCUMBRANCES	7,614,026	7,335,539	278,487	252,857	257,385	(4,528)
Excess of Revenues Over (Under) Expenditures and Encumbrances	(\$251,400)	\$202,864	\$454,264	\$ --	\$30,244	\$30,244

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, 2002**

MUNICIPALITY OF LAJAS, PUERTO RICO

	GENERAL			DEBT SERVICE		
		Variance			Variance	
OTHER FINANCING SOURCES						
Proceed of General Obligation Note	--	880,000	880,000	--	--	--
Excess of Prior Years	\$251,400	--	--	--	--	--
Excess of Revenues and Other Sources Over Expenditures.....	<u>\$ --</u>	<u>\$1,082,864</u>	<u>\$1,082,864</u>	<u>\$ --</u>	<u>\$30,244</u>	<u>\$30,244</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		106,166			--	
Other GAAP Adjustment to Revenues - Property Tax		--			2,327	
Other GAAP Adjustment to Revenues		(16,377)			--	
Net Activity in Non Budgeted Items		(62,535)			--	
Accrual Liability for Certain Debts Not Recognized in Budget		(46,428)			--	
Fund Balance at Beginning of Year		205,638			1,138,508	
FUND BALANCE AT END OF YEAR		<u>\$1,269,328</u>			<u>\$1,171,079</u>	

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

(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, 2002**

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 on 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 (\$67,861) 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, 2002**

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 \$450,000 in certificates of deposits from Capital Project Fund as of June 30, 2002. These certificates consists of the following:

<u>Issued by</u>	<u>Certificate of Deposit Number</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Expiration Date</u>
Westernbank	2200710012	\$50,000	2.40%	07/02/02
Westernbank	2200710020	200,000	2.40%	07/01/02
Westernbank	2200710021	200,000	2.40%	07/26/02
TOTAL		\$450,000		

(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, 2002 are as follows:

<u>Funds</u>	<u>I n t e r f u n d</u>	
	<u>Receivable</u>	<u>Payable</u>
General	\$ --	\$3,599
Capital Project:		
Legislative Awards	\$3,599	--
TOTAL	\$3,599	\$3,599

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

MUNICIPALITY OF LAJAS, PUERTO RICO

(4) PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

<u>Description</u>	
Land	\$1,293,910
Buildings and Improvements ..	13,959,920
Bridges and Roads	1,798,199
Motor Vehicles	2,188,885
Furniture and Fixtures	679,433
TOTAL	<u>\$19,920,347</u>

(5) DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2002, balance due to other governmental units of the general fund for services rendered to the Municipality, consists of \$168,488 as follows:

<u>Description</u>	
General Services Administration	\$62,728
Puerto Rico Telephone	21,992
Acueduct and Sewer Authority	4,352
TOTAL	<u>\$89,072</u>

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

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, 2002, 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 7.006%	\$275,000
\$415,000, Series 1996, payable in annual installments ranging from \$10,000 to \$40,000, excluding interest, through July 1, 2013; interest at 5.50%	345,000
\$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%	869,000
\$770,000, Series 2001, payable in annual installments ranging from \$20,000 to \$75,000, excluding interest, through July 1, 2020; interest at 5.00%	770,000
TOTAL	<u>\$2,259,000</u>

<u>Description</u>	<u>Amount</u>
<u>General Obligation - Notes:</u>	
\$478,000, Series 2000, payable in annual installments ranging from \$59,000 to \$78,000, excluding interest, through January 1, 2007; interest at 5.00%	\$357,000
\$70,000, Series 2000, payable in annual installments ranging from \$9,000 to \$12,000, excluding interest, through January 1, 2007; interest at 5.00%	52,000
\$880,000, Series 2002, payable in annual installments ranging from \$150,000 to \$205,000, excluding interest, through July 1, 2006; interest at 5.00%	880,000
TOTAL	<u>\$1,289,000</u>

(continue)

**NOTES TO THE GENERAL PURPOSES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

MUNICIPALITY OF LAJAS, PUERTO RICO

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

The annual requirements to amortize the general and special long-term debt outstanding as of June 30, 2002 are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2003	324,000	154,146	478,146
2004	344,000	143,614	487,614
2005	364,000	121,019	485,019
2006	400,000	109,515	509,515
2007	421,000	97,028	518,028
Thereafter	1,695,000	568,810	2,263,810
TOTAL	\$3,548,000	\$1,194,132	\$4,742,132

The following is a summary of changes in long-term debt obligation for the year ended June 30, 2002:

	(A) Balance July 1, 2001	(B) New Issues	(C) Retirement and Current Maturities	(D) (A+B-C) Balance June 30, 2002
General	\$1,563,000	770,000	74,000	\$2,259,000
Special	480,000	880,000	71,000	1,289,000
Total	\$2,043,000	\$1,650,000	\$145,000	\$3,548,000

(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.

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.

(continue)

FOR THE YEAR ENDED JUNE 30, 2002

(8) PROPERTY TAXES (continuation)

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 credit balance in favor of the Municipality of \$164,302 at end of year but the detail of the amount due from Municipal Revenue Collection Center is not available, since this information will be audited by an external auditors firm.

(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

The following is a summary of eligibility factors, contribution methods, and benefit provisions of the plan:

- a. Date of your most recent actuarial valuation: 06-30-2000
- b. Description of the employee groups covered by the Plan: All regular full time Public Employees working for the Central Government, Public Corporations and Municipalities of P. R.
- c. The types of benefits provided and the authority under which benefit provisions are established: Retirement, Pensions, Disability and Death benefits under the Act No. 447 of 1951.
- d. 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: Law #447 of 1951
- e. Required contribution rates of active plan members:
 - 1 Coordination Plan: 5.775% of Gross Salary up to \$6,600 plus 8.275% Gross Salary in excess of \$6,600.
 - 2 Supplementation Plan: 8.275% of Gross Salary. This is the only choice available to Police, Firefighters and Mayors.
- f. Actuarial Assumptions:
 1. Interest Rate: 8.5% a year.
 2. Salary Increases: 5.0% a year.
 3. Mortality: GAM'83 Mortality Table set forward two years.
 4. Termination: Medium Turnover Table commensurate with anticipated experience.
 5. Disability: 65% of Third Railroad Retirement Table Rates.
 6. Retirement Age: Graded scale of retirement ages commensurate with anticipated experience.
 7. Proportion of Participants with Spouses: 80% of participants assumed to be married, with wives assumed to be four years younger than husbands.

(continue)

(11) EMPLOYEE'S RETIREMENT PLAN (continuation)

8. Number of Employees Electing Higher Contributions: 15% of retiring employees assumed to pay retroactive contributions at retirement.
9. Cost-of-Living Adjustment: 3% every third year.
- g. The Municipality of Lajas required contribution rate in accordance with the funding policy, as a percentage of the current year (Fiscal Year 2001-2002) covered payroll: 9.275% of Gross Salary.
 1. Required contribution in dollars: \$229,149.02
 2. Actual contribution in dollars: \$229,149.02

(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 landfill. As of June 30, 2002, the Municipality has one active landfill which has an estimated remaining useful life of four years. As of June 30, 2002, 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.

(13) NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Municipality is required to implement this standard for the fiscal year ending June 30, 2004. The Municipality has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

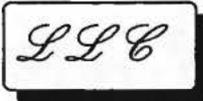
END OF NOTES

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, 2002, and have issued our report thereon dated December 11, 2002. 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 11, 2002.

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 11, 2002.

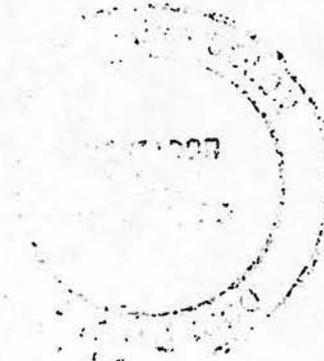
This report is intended solely for the information of management, Municipal Assembly, and Office of the Commissioner of Municipal Affairs (State Agency). However, this report is a matter of public record and its distribution is not limited.

Cayey, Puerto Rico
December 11, 2002



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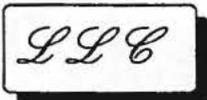
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PART III

REPORT AND SUPPORTING SCHEDULES TO

THE FEDERAL FINANCIAL ASSISTANCE PROGRAMS



LIONEL LUNA COLON

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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, 2002. **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, 2002. 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-1 33.

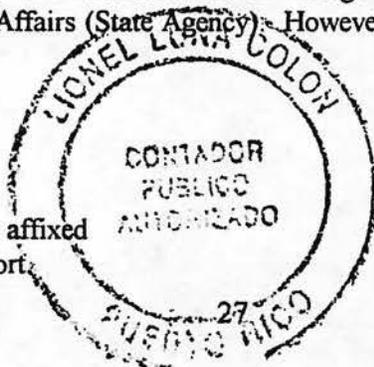
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 11, 2002

Stamp Number 1837323 was affixed to the record copy of this report.



License No. 2662
Expires on December 1, 2005

**SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE**

MUNICIPALITY OF LAJAS, PUERTO RICO

FOR THE YEAR ENDED JUNE 30, 2002

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				
Section 8 Housing Vouchers	14.871			\$238,055
State Block Grant Program (SBGP)	14.228			
		01-FD	1,149,735	851,421
		00-FD	644,186	26,953
		99-FD	488,750	23,523
Total State Block Grant Program (SBGP)				901,897*
Total Department of Housing and Urban Development				1,139,952
Program Income	N/A			4,287
U.S. Department of Agriculture Water and Waste Disposal Systems	10.760		3,636,782	24,671
U.S. Department of Justice "Cops" Grants	16,710	98UMWX2379 CMWX0542	548,302 48,377	190,165 30,314
U.S. Department of H. H. S. Child Care	93.575			208,939
"Consortio Municipal"	93.556	CMF02-001		10,915
Federal Emergency Management Agency Public Assistance Grants	83.544			174,523
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$1,783,766

***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, 2002**

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, 2002**

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 program tested as major programs was U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. State Block Grant Program CFDA No.14.228.
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**

MUNICIPALITY OF LAJAS, PUERTO RICO

FOR THE YEAR ENDED JUNE 30, 2002

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.

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, 2002**

MUNICIPALITY OF LAJAS, PUERTO RICO

Municipal Operations

<u>Fiscal Year of Audit Report</u>	<u>Finding</u>	<u>Comments</u>
1992 to 2001	The Municipality accounting records were kept on cash basis, instead of, accrual basis.	Situation Still Prevail.

