

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE LARES

AUDITORIA 2001-02

30 DE JUNIO DE 2002

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

23 JAN 31 PM 4: 23

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LARES, PUERTO RICO**

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

JUNE 30, 2002

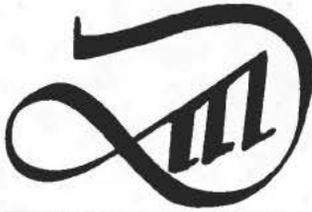
**(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LARES, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2002
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND THE OMB CIRCULAR A-133)

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PART I
FINANCIAL



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P R 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Lares, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Lares, Puerto Rico (Municipality)**, 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's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The **Municipality** has not maintained a complete and accurate inventory of property, plant and equipment purchased in prior years to June 30, 2002. We were therefore, unable to apply generally accepted auditing procedures to an examination of the costs of assets included in the General Fixed Assets Account Group.

The **Municipality** does not maintained a complete and accurate records of all interfunds transactions in the Due From and Due To accounts balance for the fiscal year 2001-2002 and previous balances that represent a total combined difference of \$131,358. Therefore, we do not express an opinion on such amount presented on the general-purpose financial statements.

In our opinion, except for the effect of such adjustment, if any, as might have determined to be necessary had we been able to audit the fixed assets of the General Fixed Assets Account Group, and the transaction not recorded in the Due From and Due To accounts balances, as explained above paragraphs, the general-purpose combined financial statements referred to in the first paragraph presents fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2002, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2002 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT

Page 2

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.

CPA DIAZ
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 15, 2002



MUNICIPALITY OF LARES, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
ASSETS AND OTHER DEBITS:							
Cash and Investments (Notes 1 E) and 2).....	\$ 25,219	\$ 614,094	\$ 1,023,020	\$ -	\$ -	\$ -	\$ 1,662,333
Cash with Fiscal Agent (Note 1 E)	5,298	1,619	183,385	475,683	-	-	665,985
Receivables:							
Property Tax (Note 8).....	-	-	-	5,927	-	-	5,927
Federal Grants (Note 10).....	-	168,454	-	-	-	-	168,454
Others Funds (Note 3)	257,375	261,094	317,691	-	-	-	836,160
Others	51,571	62,497	30	-	-	-	114,098
Property, Plant and Equipment (Note 5)	-	-	-	-	15,131,599	-	15,131,599
Amount Available in Debt Service Fund (Note 7)..	-	-	-	-	-	480,768	480,768
Amount to be Provided for Payment of:							
General Long-Term Debts (Note 6)	-	-	-	-	-	2,607,232	2,607,232
Advance Property Taxes (Note 6).....	-	-	-	-	-	341,525	341,525
Intergovernmental Advance (Note 6).....	-	-	-	-	-	574,078	574,078
State Health Insurance Plan (Note 6)	-	-	-	-	-	109,250	109,250
Claims and Judgments (Note 6)	-	-	-	-	-	50,000	50,000
Solid Waste Disposal (Note 6)	-	-	-	-	-	392,126	392,126
Compensated Absences (Note 1 I).....	-	-	-	-	-	1,300,749	1,300,749
TOTAL ASSETS AND OTHER DEBITS	\$ 339,463	\$ 1,107,758	\$ 1,524,126	\$ 481,610	\$15,131,599	\$ 5,855,728	\$24,440,284

continue

MUNICIPALITY OF LARES, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 337,371	\$ 27,675	\$ 154,002	\$ -	\$ -	\$ -	\$ 519,048
Due to:							
Government Units (Note 4)	99,557	-	-	-	-	-	99,557
Other Funds (Note 3)	70,841	524,294	108,825	842	-	-	704,802
Deferred Revenues:							
Volume of Business Tax (Note 9)	349,052	-	-	-	-	-	349,052
Local Grants (Note 10)	-	481,020	-	-	-	-	481,020
Federal Grants (Note 10)	-	8,581	-	-	-	-	8,581
Long-Term Debts:							
General Obligations Bonds (Note 6)	-	-	-	-	-	2,402,000	2,402,000
Notes Payable (Note 6)	-	-	-	-	-	686,000	686,000
Advances of Property Taxes (Note 6)	-	-	-	-	-	341,525	341,525
Intergovernmental Advance (Note 10)	-	-	-	-	-	574,078	574,078
State Health Insurance Plan (Note 6)	-	-	-	-	-	109,250	109,250
Claims and Judgments (Note 6)	-	-	-	-	-	50,000	50,000
Solid Waste Disposal (Note 6)	-	-	-	-	-	392,126	392,126
Vested Compensated Absences (Note 1 I)	-	-	-	-	-	1,300,749	1,300,749
TOTAL LIABILITIES	856,821	1,041,570	262,827	842	-	5,855,728	8,017,788

continue

MUNICIPALITY OF LARES, PUERTO RICO

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
FUND EQUITY (DEFICIT):							
Investment in Property, Plant and Equipment (Note 5)	\$ -	\$ -	\$ -	\$ -	\$15,131,599	\$ -	\$15,131,599
Fund Balance (Deficit):							
Reserved for Encumbrances (Note 1 L)	218,913	16,394	-	-	-	-	235,307
Unreserved:							
Designated for Debt Service (Note 1 L)	-	-	-	480,768	-	-	480,768
Designated for Subsequent Years							
Expenditures	5,298	49,794	1,261,299	-	-	-	1,316,391
Undesignated (Deficit)	<u>(741,569)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(741,569)</u>
TOTAL FUND EQUITY (DEFICIT)	<u>(517,358)</u>	<u>66,188</u>	<u>1,261,299</u>	<u>480,768</u>	<u>15,131,599</u>	<u>-</u>	<u>16,422,496</u>
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	<u>\$ 339,463</u>	<u>\$ 1,107,758</u>	<u>\$ 1,524,126</u>	<u>\$ 481,610</u>	<u>\$15,131,599</u>	<u>\$ 5,855,728</u>	<u>\$24,440,284</u>

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

MUNICIPALITY OF LARES, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

FOR THE YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8).....	\$ 1,309,573	\$ -	\$ -	\$ 386,748	\$ 1,696,321
Volume of Business Taxes (Note 9).....	485,273	-	-	-	485,273
Federal Assistance (Note 10).....	-	1,430,190	-	-	1,430,190
Intergovernmental (Note 10).....	4,505,801	2,609,511	-	-	7,115,312
Licenses and Permits.....	595,181	-	-	-	595,181
Miscellaneous.....	741,121	39,731	7,397	-	788,249
TOTAL REVENUES	7,636,949	4,079,432	7,397	386,748	12,110,526
EXPENDITURES					
Current:					
Mayor and Municipal Legislature.....	538,286	-	-	-	538,286
General Government.....	3,354,860	1,192,136	947,203	-	5,494,199
Public Safety.....	688,702	-	-	-	688,702
Public Works.....	1,530,486	-	-	-	1,530,486
Culture and Recreation.....	604,279	-	-	-	604,279
Sanitation.....	1,003,977	-	-	-	1,003,977
Solid Waste Disposal.....	-	-	-	-	-
Human Services and Welfare.....	668,739	258,561	-	-	927,300
Urban Development.....	-	-	299,553	-	299,553
Capital Outlays.....	60,415	33,995	1,431,975	-	1,526,385
Advance of Property Taxes.....	943,827	-	-	-	943,827
Debt Service:					
Principal Retirement (Notes 6 and 7).....	-	-	-	278,000	278,000
Interest Payment.....	-	-	-	152,534	152,534
TOTAL EXPENDITURES	9,393,571	1,484,692	2,678,731	430,534	13,987,528
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,756,622)	2,594,740	(2,671,334)	(43,786)	(1,877,002)

MUNICIPALITY OF LARES, PUERTO RICO

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

FOR THE YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Advances of Property Taxes (Note 8)	\$ 943,827	\$ -	\$ -	\$ -	\$ 943,827
Proceed of Note	750,000	-	-	-	750,000
Operating Transfer In	91,493	42,079	3,513,194	-	3,646,766
Operating Transfer Out	<u>(947,745)</u>	<u>(2,607,529)</u>	<u>(91,492)</u>	<u>-</u>	<u>(3,646,766)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>837,575</u>	<u>(2,565,450)</u>	<u>3,421,702</u>	<u>-</u>	<u>1,693,827</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	(919,047)	29,290	750,368	(43,786)	(183,175)
Fund Balances, at Beginning of Year	11,211	36,898	510,931	915,032	1,474,072
Residual Equity Transfer (Note 1 K)	<u>390,478</u>	<u>-</u>	<u>-</u>	<u>(390,478)</u>	<u>-</u>
FUND BALANCES (DEFICIT) AT END YEAR.....	<u>(\$ 517,358)</u>	<u>\$ 66,188</u>	<u>\$ 1,261,299</u>	<u>\$ 480,768</u>	<u>\$ 1,290,897</u>

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

MUNICIPALITY OF LARES, PUERTO RICO

**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

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 1,699,575	\$ 1,309,573	(\$ 390,002)	\$ 349,154	\$ 386,748	\$ 37,594
Volume of Business Taxes	540,000	485,273	(54,727)	-	-	-
Intergovernmental	4,466,128	4,505,801	39,673	-	-	-
Licenses and Permits	515,000	595,181	80,181	-	-	-
Miscellaneous	1,281,297	748,046	(533,251)	-	-	-
TOTAL REVENUES	8,502,000	7,643,874	(858,126)	349,154	386,748	37,594
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	579,929	564,382	15,547	-	-	-
General Government:						
Finance	2,725,084	2,887,561	(162,477)	-	-	-
Personnel	255,004	259,771	(4,767)	-	-	-
Insurance	168,602	190,538	(21,936)	-	-	-
Public Safety	686,506	688,720	(2,214)	-	-	-
Public Works	1,550,474	1,548,597	1,877	-	-	-
Culture and Recreation	691,438	608,904	82,534	-	-	-
Sanitation	1,007,356	1,003,977	3,379	-	-	-
Human Services and Welfare	670,751	669,336	1,415	-	-	-
Urban Development	-	-	-	-	-	-
Capital Outlays	60,603	60,415	188	-	-	-
Debt Services	-	-	-	349,154	430,534	(81,380)
TOTAL EXPENDITURES AND ENCUMBRANCES	8,395,747	8,482,201	(86,454)	349,154	430,534	(81,380)
Excess of Revenues Over (Under) Expenditures and Encumbrances	106,253	(838,327)	(944,580)	-	(43,786)	(43,786)

MUNICIPALITY OF LARES, PUERTO RICO

**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

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Operating Transfer Out	\$ (106,253)	(106,253)	\$ -	\$ -	\$ -	\$ -
Excess of Revenues and Others Sources (Uses) Over Expenditures and Other Uses.....	<u>\$ -</u>	(944,580)	<u>(\$ 944,580)</u>	<u>\$ -</u>	(43,786)	<u>(\$ 43,786)</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		41,621			-	
GAAP Adjustment to Revenues		(6,925)			-	
Accrual Liability for Certain Debts Not Recognized in Budget		(9,163)			-	
Net Changes in Unbudgeted Items		-			-	
Fund Balances, at Beginning of Year		11,211			915,032	
Residual Equity Transfer (Note 1 K).....		<u>390,478</u>			<u>(390,478)</u>	
FUND BALANCE (DEFICIT) AT END OF YEAR.		<u>(\$ 517,358)</u>			<u>\$ 480,768</u>	

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

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Lares, Puerto Rico (Municipality)** was founded in the year 1827, 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 legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids 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 accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The general-purpose financial statements of the **Municipality** have been prepared in accordance with general 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 present 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 organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, fiscal dependency of the potential component units and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government.

A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

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 groups included in the combined balance sheet, therefore, no organizations, activities or functions are required to be included in the reporting entity.

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**.

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 – This 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 – This 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 – This is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interests.

Capital Projects Fund – This 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 is transferred to the general fixed assets account group.

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

ACCOUNT GROUPS

Account groups is not fund; it does not reflect available financial resources and related liabilities, but is accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the Municipality:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the Municipality.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the Municipality.

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 governmental fund types follow the modified accrual basis of accounting. 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 years to which they apply.

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, moneys 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, moneys 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.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the general long-term debt account group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

D. Budgetary Accounting

The Municipality's Annual Budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year.

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 15 of each fiscal year, the Mayor submits to the Municipal Legislature 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 Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

4. Prior to June 13, 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 Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Combined Financial Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases 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 data.

All encumbrance 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 Finance Awards 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.

E. 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 revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with the law.

F. Receivable

Receivable are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded programs.

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

H. General Fixed Assets

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.

I. 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, or upon retirement, 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; and (3) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as 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 resource, is included in the General Long-Term Debt Account Group.

J. Insurance

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the 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**.

K. Interfunds Transactions

The **Municipality** has the following types of transactions among funds:

Residual Equity Transfers – Nonrecurring or nonroutine transfers of equity between funds. During the Fiscal Year 2001-2002 the Municipal Revenue Collection Agency, Fiscal Agent, authorized the equity transfer from Debt Service Fund to General Fund in the amount of \$390,478.

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

L. Reservations of Fund Balance

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

Encumbrance – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these 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.

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

Fund Deficit in the General Fund is primarily attributable to prior year adjustments due to unrecorded debts and cash accounts reconciliation. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund. The General Long-Term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

N. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

NOTE 2 CASH AND INVESTMENTS

Investments consist of certificates of deposit. The **Municipality's** cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. At June 30, 2002, the market value of investments approximated its carrying value as follow:

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank of PR.....	3420331-0111	<u>\$500,000</u>	2.15%	12-27-02
TOTAL		<u>\$500,000</u>		

NOTE 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 consist of the follows:

	INTERFUND	
	RECEIVABLE	PAYABLE
General:		
Interfund Loans.....	\$ 842	\$ -
Interest Receivable from Debt Service Fund.....	256,533	70,841
Special Revenue:		
Interfund Loans.....	261,094	524,294
Capital Project:		
Interfund Loans.....	317,691	108,825
Debt Services:		
Interest Payable to General Fund.....	-	842
TOTAL	<u>\$ 836,160</u>	<u>\$ 704,802</u>

NOTE 4 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 the following:

	AMOUNT
Retirement System Administration	\$ 65,942
Water and Sewer Authority.....	25,920
Others	7,695
TOTAL	<u>\$ 99,557</u>

continue

MUNICIPALITY OF LARES, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

DESCRIPTION	BALANCE JULY 1, 2001	ADDITIONS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2002
Land	\$ 4,132,522	\$ -	\$ -	\$ 4,132,522
Buildings and Improvements	5,312,285	-	-	5,312,285
Motor Vehicles	-	-	-	-
Furniture and Equipment	5,578,081	108,734	23	5,686,792
TOTAL	\$15,022,888	\$ 108,734	\$ 23	\$15,131,599

NOTE 6 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

The principal long-term obligations of the **Municipality** are general obligations bonds and notes payable issued to finance the construction and improvements of public facilities. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund (See Note 7). The special obligations long-term note retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the **Municipality**. General obligations bonds and notes payable as of June 30, 2002, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$750,000, Series 2002, payable in annual installments ranging from \$5,000 to \$65,000, excluding interest, through July 1, 2026; interest at 8.0%	\$ 745,000
\$300,000, Series 1982, payable in annual installments ranging from \$4,000 to \$20,000, excluding interest, through January 1, 2007; interest at 5.00%	92,000
\$1,045,000, Series 1994, payable in annual installments ranging from \$10,000 to \$90,000, excluding interest, through July 1, 2022; interest at 6.00% - 8.00%	1,005,000
\$1,020,000, Series 1992, payable in annual installments ranging from \$30,000 to \$115,000, excluding interest, through July 1, 2007; interest at 7.506%	560,000
Total General Obligations - Bonds	2,402,000

DESCRIPTION	AMOUNT
Special Notes Payable:	
\$237,000, Series 1998, payable in annual installments ranging from \$30,000 to \$38,000, excluding interest, through January 1, 2005; interest at 4.50% (Water & Waste Disposal Loans & Grants)	\$ 110,000
\$126,000, Series 1999, payable in annual installments ranging from \$40,000 to \$60,000, excluding interest, through January 1, 2005; interest at 4.75% (Water & Waste Disposal Loans & Grants)	60,000
\$180,000, Series 1999, payable in annual installments ranging from \$30,000 to \$40,000, excluding interest, through July 1, 2003; interest at 7.50%	80,000
\$435,000, Series 2000, payable in annual installments ranging from \$53,000 to \$72,000, excluding interest, through January 1, 2007; interest at 5% (Community Facilities Loans Program)	326,000
\$148,000, Series 2000, payable in annual installments ranging from \$19,000 to \$24,000, excluding interest, through January 1, 2007; interest at 4.375% (Water & Waste Disposal Loans & Grants)	110,000
Total Special Notes Payable	686,000
Total General Obligations Bonds and Notes	\$3,088,000

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2002 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2003	\$ 295,000	\$ 166,554	\$ 461,554
2004	308,000	150,481	458,481
2005	294,000	133,782	427,782
2006	245,000	117,310	362,310
After 2006	1,946,000	986,647	2,932,647
TOTAL	\$3,088,000	\$1,554,774	\$4,642,774

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

B. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2002
Property Tax – Treasury Department	\$ 24,547	\$ -	\$ 3,006	\$ 21,541
Property Tax – MRCC	319,984	943,827	943,827	319,984
Income Tax Withheld	36,495	-	36,495	-
Intergovernmental Advance-MRCC	574,078	3,792,873	3,792,873	574,078
PR Electric Power Authority	49,022	-	49,022	-
State Health Insurance	123,751	-	14,501	109,250
Claims and Judgments	50,000	-	-	50,000
Solid Waste Disposal	392,126	-	-	392,126
Vested Compensated Absences	935,065	365,684	-	1,300,749
TOTAL	<u>\$2,505,068</u>	<u>\$5,102,384</u>	<u>\$4,839,724</u>	<u>\$2,767,728</u>

The PR Electric Power Authority is in the process of adjudicating the contribution in lieu of tax for the Fiscal Year 2001-2002. Consequently, the debt reported above could increase or decrease subject to final contribution determined by them.

C. CHANGES IN GENERAL LONG-TERM DEBTS

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

DESCRIPTION	BALANCE JULY 1, 2001	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2002
General	\$1,773,000	\$ 750,000	\$ 121,000	\$2,402,000
Special	848,000	-	162,000	686,000
Others	<u>2,505,068</u>	<u>5,102,384</u>	<u>4,839,724</u>	<u>2,767,728</u>
TOTAL	<u>\$5,126,068</u>	<u>\$5,852,384</u>	<u>\$5,122,724</u>	<u>\$5,855,728</u>

NOTE 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 obligations bonds 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.

NOTE 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**, 5.55% and 3.55%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund. The remaining portion belonging to the **Municipality** of 1.25% 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 7).

The **Municipality** has not reached the maximum statutory tax rate limit for the basic tax and there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has 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.

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 8 PROPERTY TAXES (continuation)

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$50,000. The Municipal Revenue Collection Center advances to the **Municipality**, on quarterly 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 of non-exonerated property taxes are applied to the advances of property tax send by the Municipal Revenue Collection Center, they are record as amortization of the advance in the General Long-Term Debt Account Group, for the Prior Advance Property Taxes owed to Treasury Department and Municipal Revenue Collection Center (MRCC), expenditures in the General Fund and recognized as revenue in accordance with GAAP.

NOTE 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 April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.30% 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.

NOTE 10 INTERGOVERNMENTAL REVENUES

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

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a 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.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

During the fiscal year, the **Municipality** adopted the requirements of **GASB Number 25** for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The **Municipality** contributes to the system 9.275% of the participating employee's salaries.

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

Law Number 305 of September 24, 1999, amends the Act Number 447, that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution program to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

All employees that do not elect to transfer for the new program, and 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 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
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	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

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 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

Contributions in 2002 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2002 was approximately **\$326,973**. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the year ended June 30, 2002.

NOTE 12 SOLID WASTE DISPOSAL

According to the Environmental Protection Agency's (EPA) regulations, the Municipality must follow certain closure functions and postclosure monitoring and maintenance procedures. In addition, the Municipality has not adopted the GASB Number 18 in order to comply with these regulations.

As of June 30, 2002, the Municipality has one inactive landfill with estimated closing costs of \$392,125, presented in the General Long-Term debt Account Group. The Municipality will use the approved federal grants for the closure and postclosure care costs of the landfill 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.

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 13 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome, except on one of those cases, where six (6) employees of the North Central Consortium (Arecibo) filed a complaint against the Consortium and the **Municipality** (one of their members), because they have been deprived of their job in the local office in Lares. All the parties involved have settled the case out of court. As part of a global agreement, each municipality that forms the Consortium will pay the amount of \$50,000 (see Note 6).

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings that are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of these legal proceeding. However, it has been the **Municipality's** experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

In the normal course of operations, the **Municipality** receives grant from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 14 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management's Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.

B. Basic Financial Statements – should include:

1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:
 - a. Statement of Net Assets
 - b. Statement of Activities
 2. Fund Financial Statements – Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
 3. Notes to the Financial Statements – One set of notes for both financial statements.
- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the **Municipality** in fiscal year beginning after June 15, 2002. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

**NOTE 14 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39
(continuation)**

On May 2002, GASB No. 39 was issued that amend GASB 14 by established additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2003. Earlier application is encouraged.

END OF NOTES

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Commerce:			
Direct Programs:			
Economic Development – Grant for Public Works and Infrastructure Development.....	11.300		\$ 87,930
Special Economic Development and Adjustment Assistance Program	11.307		<u>109,660</u>
Total U.S. Department of Commerce.....			<u>197,590</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871		258,561
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP).....	14.228	01-FD-37 00-FD-37 99-FD-IP-FC-37 98-FD-37 97-FD-FC-37 96-FD-FC-37 95-FD-37 93-AF-FD-37	<u>639,058</u>
Total U.S. Department of Housing and Urban Development....			<u>897,619</u>
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnerships and Community Policing Grant	16.710		107,732
Pass-Through Puerto Rico Department of Justice:			
Local Law Enforcement Block Grant Program	16.592	N/AV	<u>33,995</u>
Total U.S. Department of Justice			<u>141,727</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>1,236,936</u>

continue

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal Expenditures of Federal Awards (Balance Brought Forward)			<u>\$1,236,936</u>
U.S. Department of Transportation:			
Pass-Through Safety Transit Commission:			
State and Community Highway Safety	20.600	N/AV	<u>18,306</u>
U.S. Federal Emergency Management Agency:			
Pass-Through State Emergency Management Agency:			
Civil Defense – State and Local Emergency Management Assistance	83.503	N/AV	4,541
Pass-Through Office of the Governor Authorized Representative (GAR):			
Public Assistant Grants	83.544	FEMA1247DR-PR-081	<u>145,974</u>
Total U.S. Federal Emergency Management Agency			<u>150,515</u>
U.S. Department of Health and Human Services:			
Pass-Through Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	N/AV	14,633
Pass-Through Instituto de Servicios Comunes, Inc:			
Community Services Block Grant	93.569	N/AV	<u>9,800</u>
Total U. S. Department of Health and Human Services			<u>24,433</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$1,430,190</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Lares, Puerto Rico (Municipality)** and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The financial transactions are recorded by the **Municipality** in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 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.

NOTE 4 PASS THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass through entity and identifying number assigned by the pass through entity for federal awards received as a subrecipient. Numbers identified as N/AV are not available.

NOTE 5 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Type as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$ 646,615	\$ 783,575	\$1,430,190
State & Municipal Expenditures	<u>838,057</u>	<u>1,895,156</u>	<u>2,733,213</u>
TOTAL EXPENDITURES	<u>\$1,484,672</u>	<u>\$2,678,731</u>	<u>\$4,163,403</u>

NOTE 6 LOANS OUTSTANDING

The **Municipality of Lares, Puerto Rico** had the following outstanding balances at June 30, 2002 for the Community Facilities Loan Program, and Water and Waste Disposal Loans and Grants Program. For these loans the grantor does not impose continuing compliance requirements, as described on the OMB Circular A-133. The amounts presented in the Schedule of Expenditures of Federal Awards, represent expenditures according to modified accrual basis of accounting (see Note 1). The loans outstanding balances were included in the **Municipality's** General Long Term-Debt Account Group (see Note 6 of the Notes to General-Purpose Financial Statements).

continue

MUNICIPALITY OF LARES, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2002

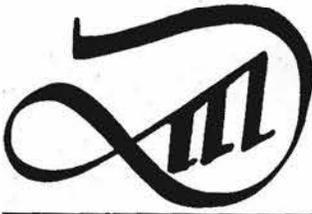
NOTE 6 LOANS OUTSTANDING (continuation)

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNT OUTSTANDING</u>
Community Facilities Loan Program.....	10.660	\$326,000
Water and Waste Disposal Loans and Grants	10.770	110,000
Water and Waste Disposal Loans and Grants	10.770	110,000
Water and Waste Disposal Loans and Grants	10.770	60,000

NOTE 7 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P R 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Lares, Puerto Rico**

We have audited the financial statements of **Municipality of Lares, Puerto Rico (Municipality)** as of and for the year ended June 30, 2002, and have issued report thereon dated November 15, 2002, which was qualified because we been unable to audit the fixed assets of the General Fixed Assets Account Group, and the transaction not recorded in the Due From and Due To accounts balances. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-II-01 and 02-II-02.

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

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 consider the reportable conditions described above, being material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated November 15, 2002.

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

CPA [Signature]
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 15, 2002





CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants

PO BOX 8369
CAGUAS, P R 00726-8369

TEL (787) 746-0510
FAX (787) 746-0525

**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 Legislature
Municipality of Lares, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Lares, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The **Municipality'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 the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality'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 the **Municipality's** compliance with those requirements.

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed various instances of noncompliance with those requirements, which 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 items 02-III-02 through 02-III-04.

Internal Control Over Compliance

The management of the **Municipality** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Page 2

We noted certain matters involving the internal control over compliance and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-III-01 through 02-III-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

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

CPA [Signature]
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 15, 2002



PART III
FINDINGS AND QUESTIONED COSTS

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

- Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Reportable condition(s) identified? Yes None Reported
- Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Reportable condition(s) identified? Yes None Reported
- Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs:

- Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

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

- Yes No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
11.300 14.228	Economic Development – Grant for Public Woks and Infrastructure Development State Block Grant Program (SBGP)

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

- Yes No

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During our examination of Municipality's property record and reports we noted the following deficiencies; (a) balance in computerized property records and reports do not reconcile with the ending balances reported in the General Ledger; (b) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balance. <i>(This is a prior year finding.)</i>
CRITERIA	Article 9.002 of State Act Number 81 of August 30, 1991 stated that Municipality should maintain updated property accounting records.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement; such as monthly reconciliation between General Ledger account balances and Property Subsidiary Ledger.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 02-II-02
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS
CONDITION	During our examination of Municipality's cash accounts we noted that the interfund cash transactions and corresponding due from and due to account balances, for the fiscal year 2001-2002 and previous balances present a total combined difference of \$131,358.
CRITERIA	Article 8.010 of State Act Number 81 of August 30, 1991 states that Municipality should maintain accurate accounting records and funds controls.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding cash and interfunds transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-01
FEDERAL PROGRAM	STATE BLOCK GRANTS PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our test of Municipality's internal control over disbursement process, that supporting documents related to three (3) disbursement vouchers and other supporting documents, such as invoices and purchase orders, were not stamped as paid. Also, we did not find the receiving reports in twelve (12) disbursement vouchers.
CRITERIA	Subpart C, 24 CFR §85.20 (b) (OMB Common Rules) requires to grantees and sub-grantees to maintain effective control and accountability over grants and sub-grants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
EFFECT	Vendor invoices could be paid twice by Municipality , resulting in overpayments and possible unallowable costs. Also, payments may be made and the good or service has not been received.
CAUSE	There are no adequate internal control procedures over the disbursement cycle to assure that invoices and disbursement vouchers are not processed twice; or that payments are made and the good or service not received or performed.
RECOMMENDATION	Municipality should stamp as paid all disbursement supporting documents in order to prevent potential overpayments; also, should ensure that no payments are made if a receiving report is not prepared.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-02
FEDERAL PROGRAM	ECONOMIC DEVELOPMENT – GRANT FOR PUBLIC WORKS AND INFRASTRUCTURE DEVELOPMENT (CDFA NO. 11.300) U.S. DEPARTMENT OF COMMERCE
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our test of Municipality's internal control over disbursement process, that supporting documents related to five (5) disbursement vouchers and other supporting documents, such as invoices and purchase orders, were not stamped as paid.
CRITERIA	Subpart C, 24 CFR §85.20 (b) (OMB Common Rules) requires to grantees and sub-grantees to maintain effective control and accountability over grants and sub-grants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
EFFECT	Vendor invoices could be paid twice by Municipality , resulting in overpayments and possible unallowable costs.
CAUSE	There are no adequate internal control procedures over the disbursement cycle to assure that invoices and disbursement vouchers are not processed twice.
RECOMMENDATION	Municipality should stamp as paid all disbursement supporting documents in order to prevent potential overpayments.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-03
FEDERAL PROGRAM	STATE BLOCK GRANTS PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT & REAL PROPERTY MANAGEMENT
CONDITION	The Federal Program Department does not have a property register that include the property cost, acquisition date, use and condition of property, grant or grant agreement, who is the legal owner and percentage of federal participation costs. Also, we noticed that internal controls are not being followed in order to assure that the equipment is safeguarded.
CRITERIA	Subpart C, 24 CFR §85.32 (d), states that property records must include a description of the property, serial number or other identification number, the source of the funds, percentage of Federal participation in the property, its location, use and condition of the property, any ultimate disposition data including the date of disposal and sale price of property (if any). A physical inventory of property must be taken and results reconciled at least once every two years. Also, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.
EFFECT	The Municipality is not in compliance with Subpart C, 24 CFR §85.32 (d).
CAUSE	There is no internal control procedures implemented to assure that property register includes all necessary information, as required by Subpart C, 24 CFR §85.32 (d).
RECOMMENDATION	We recommend management to implement adequate internal control procedures to assure that a property register of federal programs is maintained.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF LARES, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-III-04
FEDERAL PROGRAM	ECONOMIC DEVELOPMENT – GRANT FOR PUBLIC WORKS AND INFRASTRUCTURE DEVELOPMENT (CDFA NO. 11.300) U.S. DEPARTMENT OF COMMERCE
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Municipality did not provide evidence of the submission of the required Financial Status Reports (SF-269) and the Federal Cash Transaction Report (SF-272) in a way that represented the program's financial situation accurately.
CRITERIA	Part 14, 15 CFR, and Part 24, 15 CFR (OMB Common Rule) establishes the required reports to be submitted to the Federal Agency, and the procedures and time to submit such reports.
EFFECT	The Municipality is not in compliance with the reporting requirement established by the program's regulation.
CAUSE	There are no adequate internal control procedures to ensure that the Municipality will comply with the required reports and other financial information that must be submitted to the Federal Agencies concerned with the program.
RECOMMENDATION	We recommend management to implement procedures in order to assure compliance with this requirement and follow the procedures instructed by the program's regulation issued by the United States Department of Commerce.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SECTION

MUNICIPALITY OF LARES, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE YEAR ENDED JUNE 30, 2002

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(1) Audit Findings that have been Fully Corrected:					
2001	01-III-02	Allowable Cost/Cost Principles – Bank Reconciliation.	11.300	NONE	Municipality's Mayor gave instructions to the Office of Federal Programs to reconcile monthly the General Ledger cash account balances with adjusted cash bank balances.
(2) Audit Findings not Corrected or Partially Corrected:					
2001	01-III-01	Allowable Cost/Cost Principles – Cancellation of supporting documents.	14.228	NONE	The Mayor gave instructions to the Finance Director to be aware that all disbursements supporting documents are stamped as paid.
	01-III-03	Allowable Cost/Cost Principles – Cancellation of supporting documents.	11.300	NONE	The Mayor gave instructions to the Finance Director to be aware that all disbursements supporting documents are stamped as paid.
	01-III-04	Reporting – No evidence of financial report submission.	11.300	NONE	Municipality's Mayor gave instructions to the Federal Program Director to prepare the required reports in order to comply with the program's regulations.
2000	00-III-03	Allowable Cost/Cost Principles - Cancellation of supporting documents.	14.228	NONE	See Finding Number 01-III-01 above.
	00-III-05	Difference in the Administration Cost category.	14.228	\$37,926	Municipality Mayor gave instructions to the Finance Director that, in coordination with Federal Program Director obtains approval from OCMA for the difference in amount.
(3) Corrective action taken is significantly different from corrective action previously reported:					
NONE					

MUNICIPALITY OF LARES, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE YEAR ENDED JUNE 30, 2000

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
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(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE