

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE LAS MARIAS**

**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

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ASUNTOS MUNICIPALES

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS**

**SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Las Marías  
Las Marías, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Las Marías, as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Las Marías' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as described in the following paragraphs, 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 includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 6, the Municipality has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance of such account group amounting to \$3,676,427.

As described in Note 16, the Municipality has not performed a study of the estimated landfill closing and postclosing costs that will be recognized in the general purpose financial statements, as required by the GASB Statement Number 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*", accordingly, no provision for liability has been made in the accompanying financial statements as required by this statement.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, and for the necessary provision of liability for postclosing costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Las Marías as of June 30, 2003, and the results of its operations 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 our report dated November 21, 2003, on our consideration of the Municipality's internal control 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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.

San Juan, Puerto Rico  
November 21, 2003

The stamp 1908295 was affixed  
to the original of this report



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARIAS  
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003**

<u>Assets</u>	<u>Governmental Fund Types</u>				<u>Account Groups</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Asset</u>	<u>General Long Term Debt</u>	<u>Memorandum</u>
Cash in bank (Note 2)	\$ 115,444	\$ 191,413	\$ -	\$ 5,472	\$ -	\$ -	\$ 312,329
Cash with fiscal agent (Note 2)	109,735	77,361	185,602	179,339			552,037
Due from other agencies (Note 7)	889,890	46,032					935,922
Due from other funds (Note 8)	4,600	29,759					34,359
Property and equipment (Note 6)					3,676,427		3,676,427
Amount available in debt service fund (Note 2)						185,602	185,602
Amount to be provided for retirement of general long-term debt						6,780,925	6,780,925
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						396,256	396,256
<b>Total assets</b>	<b>\$ 1,119,669</b>	<b>\$ 344,565</b>	<b>\$ 185,602</b>	<b>\$ 184,811</b>	<b>\$ 3,676,427</b>	<b>\$ 7,362,783</b>	<b>\$ 12,873,857</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARIAS  
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)  
JUNE 30, 2003**

<b>Liabilities and Fund Equity</b>	<b>Governmental Fund Types</b>				<b>Account Groups</b>		<b>Total</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>General Fixed Asset</b>	<b>General Long Term Debt</b>	<b>Memorandum</b>
<b>Liabilities</b>							
Bank overdraft	\$ 7,405	\$ -	\$ -	\$ 798	\$ -	\$ -	\$ 8,203
Account payable and accrued liabilities	547,769	86,998		2,693			637,460
Due to other agencies (Note 9)	441,178						441,178
Due to other funds (Note 8)		4,000		30,359			34,359
Provision for claims and judgements	22,000						22,000
Deferred revenues:							
Municipal license tax (Note 4)	54,776						54,776
Federal government		253,567					253,567
Accrued vacations and sick leave (Note 1)						396,256	396,256
Due to Puerto Rico Health Insurance Administration (Note 10)						556,725	556,725
General long-term debts (Note 10)						6,409,802	6,409,802
<b>Total liabilities</b>	<b>1,073,128</b>	<b>344,565</b>	<b>-</b>	<b>33,850</b>	<b>-</b>	<b>7,362,783</b>	<b>8,814,326</b>
<b>Commitments and Contingencies (Notes 12, 13 and 14)</b>							
<b>Fund Balances</b>							
Investment in general fixed assets					3,676,427		3,676,427
Fund balance							
Reserved for encumbrances	18,733						18,733
Reserved for debt services			185,602				185,602
Designated for capital additions				150,961			150,961
Unreserved fund balance	27,808						27,808
<b>Total fund equity</b>	<b>46,541</b>	<b>-</b>	<b>185,602</b>	<b>150,961</b>	<b>3,676,427</b>	<b>-</b>	<b>4,059,531</b>
<b>Total liabilities and fund equity</b>	<b>\$ 1,119,669</b>	<b>\$ 344,565</b>	<b>\$ 185,602</b>	<b>\$ 184,811</b>	<b>\$ 3,676,427</b>	<b>\$ 7,362,783</b>	<b>\$ 12,873,857</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARIAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
<b>REVENUES</b>					
Property taxes (Note 3)	\$ 454,497	\$ -	\$ 97,478	\$ -	\$ 551,975
Municipal license taxes (Note 4)	80,623				80,623
Licenses and permits	164,982				164,982
Charges for service and rents	4,378				4,378
Inter-governmental revenues (Note 5):					
Federal grants and contributions		1,154,221		185,980	1,340,201
State contributions	3,961,759				3,961,759
Interest, fines, and penalties	15,651		1,782		17,433
Other revenues	1,979,128				1,979,128
Total revenues	<u>6,661,018</u>	<u>1,154,221</u>	<u>99,260</u>	<u>185,980</u>	<u>8,100,479</u>
<b>EXPENDITURES</b>					
Municipal council	77,220				77,220
Offices:					
Administrative Services	360,965				360,965
Mayor	943,951				943,951
Departments:					
Civil Defense	478,039				478,039
Finance	1,314,496				1,314,496
Public Works, Transportation and Sanitation	1,444,738	577,983			2,022,721
Recreation	157,530				157,530
Personnel	133,984				133,984
Capital outlays				259,166	259,166
Collection of property taxes applied to advances (Note 15)	309,527				309,527
General government	2,111,829				2,111,829
Secretary	44,599				44,599
Welfare		576,238			576,238

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARIAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-ALL GOVERNMENTAL FUND TYPES (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt services:					
Principal retirement (Note 10)	\$ -	\$ -	\$ 135,694	\$ -	\$ 135,694
Interest payments			314,051		314,051
Total expenditures	<u>7,376,878</u>	<u>1,154,221</u>	<u>449,745</u>	<u>259,166</u>	<u>9,240,010</u>
Deficiency of revenues over expenditures	<u>(715,860)</u>	<u>-</u>	<u>(350,485)</u>	<u>(73,186)</u>	<u>(1,139,531)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from loans	965,000				965,000
Advances of property taxes (Note 15)	309,527				309,527
Operating transfer-in	41,366		345,116		386,482
Operating transfer-out	<u>(345,116)</u>		<u>(41,366)</u>		<u>(386,482)</u>
Total other financing sources	<u>970,777</u>	<u>-</u>	<u>303,750</u>	<u>-</u>	<u>1,274,527</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	254,917	-	(46,735)	(73,186)	134,996
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<u>(208,376)</u>	<u>-</u>	<u>232,337</u>	<u>224,147</u>	<u>248,108</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 46,541</u>	<u>\$ -</u>	<u>\$ 185,602</u>	<u>\$ 150,961</u>	<u>\$ 383,104</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARIAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES-BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES (Notes 1 and 15)</b>						
Property taxes	\$ 341,628	\$ 341,228	\$ (400)	\$ 84,665	\$ 97,478	\$ 12,813
Municipal license taxes	80,000	80,623	623			
Licenses and permits	1,304,628	164,982	(1,139,646)			
Charges for service and rents	2,000	4,378	2,378			
Inter-governmental revenues:						
State contributions	4,073,746	3,961,759	(111,987)			
Interest, fines, and penalties	4,400	17,435	13,035	21,263	1,782	(19,481)
Other revenues	183,700	103,259	(80,441)			
Total revenues	<u>5,990,102</u>	<u>4,673,664</u>	<u>(1,316,438)</u>	<u>105,928</u>	<u>99,260</u>	<u>(6,668)</u>
<b>EXPENDITURES (Notes 1 and 15)</b>						
Municipal council	78,019	77,220	799			
Offices:						
Administrative Services	383,871	360,965	22,906			
Mayor	995,152	943,951	51,201			
Departments:						
Civil Defense	479,001	478,039	962			
Finance	2,193,886	1,664,073	529,813			
Public Works, Transportation and Sanitation	1,513,416	1,444,738	68,678			
Recreation	164,859	157,530	7,329			
Personnel	134,759	133,984	775			
Secretary	47,139	44,599	2,540			
Debt service; principal and interest payment			-	105,928	104,629	1,299
Total expenditures	<u>5,990,102</u>	<u>5,305,099</u>	<u>685,003</u>	<u>105,928</u>	<u>104,629</u>	<u>1,299</u>
 Excess of expenditures over revenues	 <u>\$ -</u>	 <u>\$ (631,435)</u>	 <u>\$ (631,435)</u>	 <u>\$ -</u>	 <u>\$ (5,369)</u>	 <u>\$ (5,369)</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

The Municipality of Las Marías, Puerto Rico (Municipality) was founded in 1871. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 12 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**b. Summary of Significant Accounting Policies**

The accounting policies of the Municipality are in accordance with the accounting principles generally accepted in the United States of America applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a 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 following is a summary of the more significant policies:

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

1. Governmental Funds

i. General Fund

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

ii. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. Debt Service Fund

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

iv. Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

2. Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Account Groups

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

4. Budgetary Control:

The Mayor submits and the Municipal Legislature approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. General Fund appropriations for recurrent and ordinary functions of the Municipality.

ii. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

7) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

8) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

**Manifestations of Oversight Responsibility**

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

**Accountability for Fiscal Matters**

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

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

**Scope of Public Service**  
**Special Financing Relationships**

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

9) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

10) Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
34	Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments	2003-04
37	Reporting Model Omnibus	2003-04
38	Note Disclosures	2003-04
39	Determining Whether Certain Organizations are Components Units	2003-04
40	Deposit and Investment Risk Disclosures	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05

The impact of these statements on the Municipality's financial statements has not yet been determined.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**2. CASH AND SHORT-TERM INVESTMENTS**

**a. Cash in Bank and Concentration Risk**

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in one bank located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The following is a summary of the total insured by collateral provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	<u>Total</u>	<u>Insured by FDIC</u>	<u>Insured by Collateral in Treasury Department</u>
Banco Popular de Puerto Rico	<u>\$376,248</u>	<u>\$100,000</u>	<u>\$276,248</u>

**b. Cash with Fiscal Agent**

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2003, the balance of cash retained by the Government Development Bank amounted to \$185,602.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2003, the balance of cash retained by the Government Bank available for the acquisition of real property and federal programs amounted to \$256,700.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**3. PROPERTY TAXES**

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.18% for real property and 6.18% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.35%	1.35%
Discount made by state to taxpayer	< .20%>	< .20%>
	<u>8.18%</u>	<u>6.18%</u>

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of less than \$3,500, for which no payment

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the Municipal Revenues Collection Center.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. The total advances from CRIM presented in the general long-term debt account group amounted to \$3,516,381 which will be paid commencing on July 1, 2002 through property taxes advances. (See Note 10).

**4. MUNICIPAL LICENSE TAX**

Municipal license tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2003. The annual municipal license tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Las Marías, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Las Marías are as follows:

Savings and loans associations	=	1.00%
Financing institution	=	1.50%
Other organizations	=	.30%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$54,776, corresponding to the next fiscal year municipal license.

**5. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Puerto Rico Water and Sewer Authority, the Puerto Rico Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

**6. GENERAL FIXED ASSETS**

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department is in the process of update these records in order to maintain a proper system.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$1,522,627
Vehicles, equipment, and furniture	<u>2,153,800</u>
Total general fixed assets	<u>\$3,676,427</u>

**7. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total</b>
Puerto Rico Electric Power Authority	\$493,078	\$ -	\$493,078
Puerto Rico Labor Department	243,962		243,962
Municipal Revenue Collection Center	152,850		152,850
Puerto Rico Department of Family U. S. Department of Housing and Urban Development		28,675	28,675
Rural Development	-	17,264	17,264
	-	93	93
Total	<u>\$889,890</u>	<u>\$46,032</u>	<u>\$935,922</u>

**8. DUE FROM (TO) OTHER FUNDS**

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The due from and due to other fund balances as of June 30, 2003, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
<b>General Fund</b>		
Special Fund	\$ 4,000	\$ -
Capital Project Fund	600	
<b>Special Revenue Fund</b>		
Capital Project Fund	29,759	
General Fund		4,000
<b>Capital Project</b>		
General Fund		600
Special Revenue	<u>-</u>	<u>29,759</u>
	<u>\$34,359</u>	<u>\$34,359</u>

**9. DUE TO OTHER AGENCIES**

The composition of this account is as follows:

	<u>General Fund</u>
Puerto Rico Electric Power Authority	\$419,610
Employee's Retirement System	16,899
Puerto Rico Water and Sewer Authority	4,018
General Service Administration	<u>651</u>
Total	<u>\$441,178</u>

**10. GENERAL LONG-TERM DEBTS**

The general long-term debts' transactions as of June 30, 2003 are as follows:

Balance July 1, 2002	\$5,507,417
Additions for the year	965,000
Adjustments	73,079
Payments	( <u>135,694</u> )
Balance June 30, 2003	<u>\$6,409,802</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

General long-term debt obligations at June 30, 2003 are as follows:

**Bonds**

1992 series, \$290,000 payable in annual installments of \$7,000 to \$22,000 until 2017, with interest at 5.625%.	\$ 222,000
2000 series, \$450,000 payable in annual installments of \$5,000 to \$20,000 until 2017, with interest at 6.13%.	445,000
1998 series, \$305,000 payable in annual installments of \$30,000 to \$55,000 until 2006, with interest ranging from 6% to 7%.	150,000
1999 series, \$330,000 payable in annual installments of \$5,000 to \$30,000 until 2024, with interest at 7%.	310,000
1999 series, \$805,000 payable in annual installments of \$10,000 to \$70,000 until 2024, with interest at 7.5%.	755,833
2002 series, \$175,000 payable in annual installments of \$20,000 to \$30,000 until 2009, with interest ranging from 2.70% to 4.10%.	175,000
2003 series, \$790,000 payable in annual installments of \$15,000 to \$60,000 until 2028, with interest at 6%.	<u>790,000</u> <u>2,847,833</u>

**Other Long-Term Liabilities**

Note payable with GDB to repay the excess of property taxes advances from fiscal years up to 2001. Payable in annual aggregate principal payments of \$256,344, including interest rate of 6.159%	3,516,381
Payment plan with Treasury Department, agreed to be payable in monthly installments of \$543 until 2011.	<u>45,588</u>
	<u>\$6,409,802</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The annual requirements for the amortization of general long-term debt at June 30, 2003, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2004	\$ 156,288
2005	183,984
2006	202,846
2007	151,884
2008	155,110
2009-2013	846,786
2014-2018	1,042,005
2019-2023	1,261,733
2024-2028	1,233,880
2029-2033	<u>1,175,286</u>
	<u>\$6,409,802</u>

As described in Note 3, the Municipality levies an additional special tax of 1.35% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

Due to Puerto Rico Health Insurance Administration

Due to the Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**11. RETIREMENT PLAN**

**a. Plan Description**

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. 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, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of 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.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2003 was \$156,059. The Municipality's payroll for employees covered by ERS was \$1,682,581. The Municipality total payroll for all employees was \$2,950,362.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from ERS, Minillas Station, PO Box 43002, San Juan, PR 00940.

**12. CONTINGENCIES**

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**13. COMMITMENTS**

The Municipality had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$144,671.

**14. LEASES**

Leasing arrangements with the Municipality as lessor are as follows:

- a. The Municipality leases spaces in its facilities under operating lease agreements.
- b. Total income from leases during the year ended June 30, 2003 was approximately \$4,378.
- c. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**15. BUDGETARY COMPARISONS**

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with accounting principles generally accepted in the United States of America (GAAP).

The principal difference between budgetary basis and GAAP, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by GAAP.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by GAAP.
- c. Under GAAP, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the GAAP to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
GAAP basis	\$6,661,018	\$7,376,878
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	18,733
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	( 14,272)
Plus advances of property taxes recorded as revenue on the budgetary basis	309,527	-
Plus transfer in/out	41,366	345,116
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	( 462,378)	( 309,527)
Non-budgeted funds	( <u>1,875,869</u> )	( <u>\$2,111,829</u> )
Budgetary basis	<u>\$4,673,664</u>	<u>\$5,305,099</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily the same fiscal year of the Municipality. Accordingly,

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

The Municipality budget is amended by the majority vote of the Municipal Legislature. Said amendments are included in the budgetary basis.

**16. MUNICIPAL SOLID WASTE LANDFILL POSTCLOSURE COSTS**

The Municipality discontinued the operation and ceased to accept solid waste in July 1993 in the landfill. State and Federal laws and regulations require the Municipality to perform certain closure and postclosure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure.

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost", the Municipality should perform a study of the activities that need to be implanted at the Municipality's landfill to comply with applicable state and federal regulations and to determine an estimate of postclosure costs. As of June 30, 2003, no amount has been estimated as postclosure cost of the landfill to be accounted for as required by accounting principles generally accepted in the United States of America.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Direct programs:		
Section 8 - Housing Choice Vouchers	14.871	\$ 147,189
Rural Housing and Economic Development	14.250	26,296
Pass-through State - Commissioner Office of Municipal Affairs Community Development Block Grant-State's Program - SBGP	14.228	<u>551,687</u>
Subtotal U.S. Department of HUD		<u>725,172</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Puerto Rico Elderly Commission		
Special programs for Aging Title III, Part C, Nutrition Services	93.045	131,577
Pass-through Governor's Office and Child and Community Development - Child and Adult Care Food Program	93.575	<u>102,534</u>
Subtotal U.S. Department of HHS		<u>234,111</u>
<b>U.S. Federal Emergency Management Agency Public Assistance Grants (FEMA)</b>		
Public Assistance Grants	83.544	<u>62,095</u>
Subtotal FEMA		<u>62,095</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Disbursements/ Expenditures</b>
<b>U.S. Department of Justice</b>		
Pass-through the Governor's Office - Community Oriented Policing Services		
Troops to Cops	16.711	\$ <u>101,384</u>
Subtotal U.S. Department of Justice		<u>101,384</u>
 <b>TOTAL</b>		 <b><u>\$1,122,762</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Las Marias and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Total federal expenditures per schedule	\$1,122,762
Total non-federal expenditures accounted for the Special Revenue Fund of the General Purpose Financial Statements	<u>31,459</u>
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>\$1,154,221</u>



**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Las Marías  
Las Marías, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Las Marías as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 2003, which was qualified because insufficient audit evidence exists to support Municipality of Las Marías' disclosures with respect to the general fixed assets balances and no provision for liability of postclosing costs has been recorded. 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 of Las Marías' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test 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 Municipality of Las Marías' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Las Marías' ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Reportable Conditions and Recommendations as items 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Las Marías, in a separate letter dated November 21, 2003.

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

San Juan, Puerto Rico  
November 21, 2003

The stamp 1908296 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. ACCOUNTING SYSTEM**

The Municipality does not have the accounting practices, policies or internal controls in place to provide for the preparation of financial statements, on a timely basis, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The accounting system only provides for the recording of revenues, expenditures, certain balance sheet accounts and a limited number of other transactions. Therefore, the general purpose financial statements must be prepared using financial information obtained from various departments and accounting records. The records are not integrated, and do not follow a double entry system (debits and credits). As a result the records required significant adjustments in order to present the financial position and results of operations of the Municipality in conformity with generally accepted accounting principles.

There were significant differences between the records kept at the accounting department and those for the federal programs. Financial reports for all fund types showing the financial position and results of operations following generally accepted accounting principles are only prepared at the time of the annual audit.

The Municipality does not maintain adequate records of outstanding long-term obligations. The practice is to rely upon the notification received from the Government Development Bank for Puerto Rico or the Federal Government for the balance of its outstanding debt and the withholdings for its debt service.

The continued failure to have an adequate accounting system prevents the Municipality from having current, accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

The situation also heightens the possibility of significant financial reporting problems and delays in reporting when the Municipality must implement the requirements of Statement of Governmental Accounting Standards No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*", ("SGAS 34"). This Statement is applicable to the Municipality's fiscal year June 30, 2004 financial statements. Failure to prepare and meet this

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF REPORTABLE CONDITIONS AND  
RECOMMENDATIONS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

requirement may significantly affect our auditors' report on the general purpose financial statements in the near future.

In summary, the current accounting system does not comply with the requirements established in Article 8.010, Sections (b) and (c) of the Municipalities Law. These sections provide the following:

**Section (b)** - Municipal accounting shall be kept by funds and in conformity with generally accepted accounting principles and the requirements established by the Governmental Accounting Standards Board. Also, it should be based on the pronouncements of the National Committee on Governmental Accounting and the book Governmental Accounting, Auditing and Financial Reporting. This publication should serve as the basis for designing the accounting practices and policies to allow for the preparation of the general- purpose financial statements.

**Section (c)** - The accounting system should provide:

1. the complete results of the Municipal operations,
2. the proper and necessary financial information for the efficient administration of the Municipality,
3. effective controls and the accountability of all the funds, property and other municipal assets,
4. information necessary for the preparation of accurate financial reports, that could be used in the preparation of the municipal budget.

**Recommendation**

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the ledger, as well as the preparation of year-end financial statements in accordance with generally accepted accounting principles. This plan should provide for:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF REPORTABLE CONDITIONS AND  
RECOMMENDATIONS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

- assessment of the financial accounting and reporting needs in order to take the necessary steps to meet the financial reporting requirements of SGAS 34,
- the implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for the federal funds,
- the preparation of periodic financial reports to be submitted to the Mayor, the Finance Director, the Municipal Assembly and all other interested entities,
- adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency,
- reconciliation of financial records with the reports prepared and submitted to the federal government.

**2. FIXED ASSETS**

The Municipality does not have an effective system to account for fixed assets. There are no controls in place to assure that all property expenditures which should be capitalized or property dispositions are recorded in the fixed assets subsidiary ledger. Procedures are not in place to require that real property acquired with federal and local funds be recorded in the property subsidiary ledger or that any property sales and dispositions be accounted for in the fixed assets subsidiary ledger.

This condition occurs because there are no established procedures to prepare the adjustments necessary to record these transactions in the fixed assets subsidiary ledger.

Article 8.013 of the Municipalities Law and Chapter VII of the Basic Standards establish that the Municipality shall be responsible to safeguard and be accountable for its fixed assets (both real and personal property).

Chapter VII, Sections 3, 4, 14, 15 and 21 of the Basic Standards, establishes the following guidelines regarding property management:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF REPORTABLE CONDITIONS AND  
RECOMMENDATIONS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Section 3** establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.

**Section 4** establishes that the Municipality Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.

**Section 14(1)** establishes that all Municipal property shall be numbered and identified as to ownership by the Property Department Director.

**Section 15(1)** establishes that the Property Department Director is responsible for accurately maintaining the central property records.

**Section 21(c)** establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

The continued failure to have accurate and complete property records has resulted in a disclaimer with respect to the general fixed assets account group. Under the requirements of Statement 34 this can result in a disclaimer of opinion of the entity wide statements. Furthermore, this situation represents a significant risk of loss of property and equipment because there is a lack of accountability for acquired assets. The value of federally funded property that may be lost would need to be repaid to the federal government with local funds.

**Recommendation**

The Property Division must require each division that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF REPORTABLE CONDITIONS AND  
RECOMMENDATIONS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

be carried out by persons other than the users, and through public announcement or bids.

The Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal funds offices, such as the U. S. Department of Housing and Urban Development (HUD) and U. S. Department of Health and Human Services.



**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis O. Rivera Zúñiga

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Las Marías  
Las Marías, Puerto Rico

Compliance

We have audited the compliance of Municipality of Las Marías 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, 2003. Municipality of Las Marías' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Las Marías' management. Our responsibility is to express an opinion on Municipality of Las Marías' 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 Municipality of Las Marías' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Las Marías' compliance with those requirements.

In our opinion, Municipality of Las Marías 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, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 03-1 to 03-3.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

San Juan, Puerto Rico  
November 21, 2003

The stamp 1908297 was affixed  
to the original of this report



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Las Marías.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Las Marías were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Las Marías express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Las Marías are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
  - SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Las Marías was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

See Schedule of Reportable Conditions and Recommendation on pages 32 to 36.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<b>SBGP CFDA No. 14.228</b>	<p><b>Condition 03-1</b></p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p>\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.</p>	
<p><b>SBGP CFDA No. 14.228</b></p>	<p style="text-align: center;"><b>Condition 03-2</b></p> <p>The Municipality does not realize the interviews to the employees of the contractors to verify the contractor paid the prevailing wage rates.</p> <p><u>Criteria</u></p> <p>The Davis Bacon Act establishes the Municipality should prepare and realize interviews to the employee of the contractors. The purpose of its is to capture observations of the work being performed and the wage they received. This information should be compared to the corresponding contractor payrolls.</p> <p><u>Cause</u></p> <p>The Municipality has not designate appropriate staff to ensure compliance with all applicable labor standards requirements.</p>	<p><b>\$ <u>-0-</u></b></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Effect</u></p> <p>The Municipality does not comply with the requirements of the Davis Bacon Act, and does not ensure the employees were paid as the prevailing wage rate.</p> <p><u>Recommendation</u></p> <p>The Municipality should assign an employee to perform this function, in order that before the contractor end the project, the requirements were reviewed.</p>	
<p><b>SBGP CFDA No. 14.228</b></p>	<p><b>Condition 03-3</b></p> <p>The federal program make loans to other programs of the Municipality from the available funds on its bank account.</p> <p><u>Criteria</u></p> <p>OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments establish that governmental units should assume responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award.</p> <p><u>Cause</u></p> <p>The Municipality does not have an adequate control of the federal program managed.</p>	<p>\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<u>Effect</u>	
	<p>This condition permits the financing of the Municipality's activities with federal funds and places additional financial limitations on the performance of the activities approved under the federal grant. Therefore, this exposes the Municipality to cost disallowance for the amounts owed and may also result in the assessment of penalties and interest costs on amounts owed to the federal programs.</p>	
	<u>Recommendation</u>	
	<p>The Municipality should not permit transfers of federal funds to finance activities not approved by the federal grantor and that are not in accordance with the grant agreements.</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

-45-

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>FEMA CFDA No. 83.544</b>	<p><b>Condition 99-1</b></p> <p>The following disbursement vouchers have the following conditions:</p> <p>a. The policy from the State Insurance Fund Corporation was not available for examination.</p> <p>b. A disbursement voucher paid without pre-audit section approved.</p>	Condition was not verified.

**FEMA Program**

<u>Date</u>	<u>Payee</u>	<u>No.</u>	<u>Check Amount</u>	<u>Condition</u>
01-21-99	Librado Ríos/Ríos Heavy Equipment	11	\$23,592	a, b
01-26-99	Librado Ríos/Ríos Heavy Equipment	13	10,822	a, b
03-16-99	Librado Ríos/Ríos Heavy Equipment	17	28,662	a, b
04-30-99	Librado Ríos/Ríos Heavy Equipment	18	<u>26,428</u>	a, b
			<u>\$89,504</u>	

**SBGP  
CFDA 14.228**

**Condition 99-2**

The program does not maintain the balance in the bank accounts that should not exceed more than \$5,000.

Condition still prevails.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA 14.228	<b>Condition 00-1</b>  The program does not maintain the balance in the bank account that should not exceed \$5,000.	Condition still prevails.
SBGP CFDA 14.228	<b>Condition 01-1</b>  The program does not maintain the balance in the bank account that should not exceed \$5,000.	Condition still prevails.
SBGP CFDA 14.228	<b>Condition 02-1</b>  The program does not maintain the balance in the bank account that should not exceed \$5,000.	Condition still prevails.

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

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*Edwin Soto Santiago*  
*Alcalde*

*Estado Libre Asociado de Puerto Rico*  
*Municipio de Las Marías*  
*Departamento de Finanzas*



*"El Pueblo de la  
China Dulce"*

**CORRECTIVE ACTION PLAN**

November 21, 2003

Cognizant or Oversight Agency for Audit:

Municipality of Las Marías respectfully submits the following corrective action plan for the year ended June 30, 2003

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2003

The findings from the June 30, 2003 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**Finding 03-1: SBGP Program - CFDA 14.228**

Reportable Condition: See Condition 03-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, a within three (3) business days.

*Servicio, Dedicación y Honradez*

Action Taken

The Municipality will establish procedures to coordinate efficiently the request of funds in order to disburse immediately after receipt or within three business days.

**Finding 03-2: SBGP Program - CFDA 14.228**

Reportable Condition: See Condition 03-2

Recommendation

The Municipality should assign an employee to perform this functions, in order that before the contractor end the project, the requirements were reviewed.

Action Taken

The Municipality will establish procedures that will guarantee that an adequate monitoring is done to contractors to ascertain that they are complying with all the requirements.

**Finding 03-3 SBGP Program - CFDA 14.228**

Reportable Condition: See Condition 03-3

Recommendation

The Municipality should not permit transfers of federal funds to finance activities not approved by the federal grantor and that are not in accordance with the grant agreements.

Action Taken

The Finance Office is working together with the Federal Program Office to maintain adequate and accurate accounting records.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. Mario Jorge Quintana at (787) 827-2280.

Sincerely yours,



Mario Jorge Quintana  
Finance Director

*Servicio, Dedicación y Honradez*



Estado Libre Asociado de Puerto Rico  
Municipio de Las Marías  
Oficina de Auditoría Interna

COMISIONADO  
MUNICIPALES  
SAN 28 AM 10:19  
RECIBIDO  
UNIDAD DE CORREO



Edwin Soto Santiago  
Alcalde

"El Pueblo de la  
China Dulce"

*Handwritten signature*  
05-8-4

15 de enero de 2004

OCAM  
P.O. Box 70167  
San Juan, P.R. 00936-8167

RE: "Single Audit"

A quien pueda interezar:

Reciba un cordial saludo en nombre de la Administración Municipal de Las Marías y en el mío propio.

Adjunto encontrará el "Single Audit Report" al 30 de junio de 2003, copia del "Data Collection" y el "Corrective Action Plan", este último es parte del informe. De surgir cualquier duda favor comunicarse al tel. 827-2280, ext. 38.

Cordialmente.

*Handwritten signature of Wanda I. Pérez Caraballo*

Sra. Wanda I. Pérez Caraballo  
Auditora Interna

c.c. Hon. Edwin Soto Santiago  
Alcalde

*Servicio, Dedicación y Honradez*

FORM SF-SAC (3-20-2001)

U.S. DEPT. OF COMM.- Econ. and Stat. Admin.- U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates On or After January 1, 2001

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

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

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal period ending date for this submission Month 06 / Day 30 / Year 2003 Fiscal Period End Dates Must Be On or After January 1, 2001

2. Type of Circular A-133 audit 1 [X] Single audit 2 [ ] Program-specific audit

3. Audit period covered 1 [X] Annual 2 [ ] Biennial 3 [ ] Other - Months

4. Date received by Federal clearinghouse FEDERAL GOVERNMENT USE ONLY

5. Employer Identification Number (EIN) a. Auditee EIN 6 6 0 4 3 3 4 8 4

b. Are multiple EINs covered in this report? 1 [ ] Yes 2 [X] No If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)

6. AUDITEE INFORMATION

a. Auditee name MUNICIPALITY OF LAS MARIAS b. Auditee address (Number and street) PO BOX 366 City LAS MARIAS State PR ZIP + 4 Code 0 0 6 7 0 - 0 3 6 6 c. Auditee contact Name MARIO A JORGE QUINTANA Title FINANCE DIRECTOR d. Auditee contact telephone ( 787 ) 827 - 2280 e. Auditee contact FAX (Optional) ( 787 ) 827 - 5065 f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name ORTIZ, RODRIGUEZ, RIVERA & CO b. Auditor address (Number and street) SUITE 152 PO BOX 70250 City SAN JUAN State PR ZIP + 4 Code 0 0 9 3 6 - 7 2 5 0 c. Auditor contact Name LUIS RIVERA ZUÑIGA, CPA Title PARTNER d. Auditor contact telephone ( 787 ) 756 - 8524 e. Auditor contact FAX (Optional) ( 787 ) 274 - 0562 f. Auditor contact E-mail (Optional)

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

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official Date Month 01 / Day 15 / Year 03 Printed Name/Title of certifying official MARIO A. JORGE QUINTANA FINANCE DIRECTOR

Signature of auditor Date Month 12 / Day 30 / Year 03

**PART I GENERAL INFORMATION - Continued**

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)  
1  Yes - Identify Cognizant Agency in Part I, Item 9      2  No - SKIP to Part II, Item 1

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

- |  |   |   |   |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy                              | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture                          | 66 <input type="checkbox"/> Environmental Protection Agency     | 15 <input type="checkbox"/> Interior                      | 20 <input type="checkbox"/> Transportation              |
| 11 <input type="checkbox"/> Commerce                             | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice                       | <input type="checkbox"/> Other - Specify:               |
| 12 <input type="checkbox"/> Defense                              | 93 <input type="checkbox"/> Health and Human Services           | 17 <input type="checkbox"/> Labor                         |   |
| 84 <input type="checkbox"/> Education                            |   |   |   |

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report (Mark (X) one box)  
1  Unqualified opinion      2  Qualified opinion      3  Adverse opinion      4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report?      1  Yes      2  No

3. Is a reportable condition disclosed?      1  Yes      2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness?      1  Yes      2  No

5. Is a material noncompliance disclosed?      1  Yes      2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Type of audit report on major program compliance  
1  Unqualified opinion      2  Qualified opinion      3  Adverse opinion      4  Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)      1  Yes      2  No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ \_\_ .520(b))      \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ \_\_ .530)      1  Yes      2  No

5. Is a reportable condition disclosed for any major program? (§ \_\_ .510(a)(1))      1  Yes      2  No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ \_\_ .510(a)(1))      1  Yes      2  No

7. Are any known questioned costs reported? (§ \_\_ .510(a)(3) or (4))      1  Yes      2  No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ \_\_ .315(b))      1  Yes      2  No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- |  |   |   |  |
|--|---|---|--|
| 02 <input type="checkbox"/> Agency for International Development           | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration     | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> State                            |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services           | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 14 <input type="checkbox"/> Housing and Urban Development       | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services       | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 15 <input type="checkbox"/> Interior                            | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 16 <input type="checkbox"/> Justice                             | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input checked="" type="checkbox"/> None                  |
| 81 <input type="checkbox"/> Energy   | 17 <input type="checkbox"/> Labor                               |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 09 <input type="checkbox"/> Legal Services Corp                 |   |  |

Each agency identified is required to receive a copy of the reporting package.

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

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9) .....

Count total number of boxes marked above and submit this number of reporting packages

FORM SF-SAC (3-20-2001)

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

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS	
CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) <sup>3</sup> (a)	Audit finding reference number(s) <sup>4</sup> (b)
Federal Agency Prefix <sup>1</sup>	Extension <sup>2</sup>							
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 147,189 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .250	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	RURAL HOUSING AND ECONOMIC DEVELOPMENT	\$ 26,296 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	BLOCK GRANT STATE PROGRAM (SBGP)	\$ 551,687 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	CD	03-1,03-2,03-3
9	3 .045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING TITLE III PART C NUTRITION SERVICES	\$ 131,577 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 102,534 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	3 .544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT	\$ 62,095 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	6 .711	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY ORIENTED POLICING SERVICES TROOPS TO COPS	\$ 101,384 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 1,122,762 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

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

- |                                    |   |  |          |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management   | K. Real property acquisition and relocation assistance | O. None  |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking    | L. Reporting   | P. Other |
| C. Cash management                 | H. Period of availability of Federal funds  | M. Subrecipient monitoring                             |          |
| D. Davis - Bacon Act               | I. Procurement and suspension and debarment | N. Special tests and provisions                        |          |
| E. Eligibility                     | J. Program income                           |  |          |

<sup>4</sup> N/A for NONE

**PART I** Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N/A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.