

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

MUNICIPIO DE LAS PIEDRAS
AUDITORIA 2000-01
30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Assembly
Municipality of Las Piedras
Las Piedras, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Las Piedras**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The **Municipality of Las Piedras** accounting system and subsidiary records of property and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose financial statements. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

We are unable to obtain audited financial statements of the "Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.", a Discrete Component Unit, and that was not included on the accompanying general-purpose financial statements. Accordingly, we do not express an opinion about the reporting entity structure.

INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group of the Municipality and the balances and transactions disclosed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Las Piedras** as of June 30, 2001, and the results of its operations for the 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 January 30, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Las Piedras**, taken as 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. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 30, 2002

Stamp No. 1785242 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash and cash equivalents	\$2,001,002	\$200,110					\$2,201,112
Cash with fiscal agent		143,182	\$1,482,120	\$ 2,964,854			4,590,156
Intergovernmental receivables	298,687	106,559					405,246
Municipal license taxes receivable	52,507						52,507
Federal grants receivable		160,891					160,891
Due from other funds	371,161	60,418		3,255,575			3,687,154
Other receivables	101,843	3,741					105,584
Property and equipment					\$31,527,873		31,527,873
Amount available in Debt Service Fund						\$1,482,120	1,482,120
Amount to be provided for retirement of general long-term debt						10,969,892	10,969,892
Total assets and other debits	\$2,825,200	\$674,901	\$1,482,120	\$6,220,429	\$31,527,873	\$12,452,012	\$55,182,535
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$814,621	\$81,381					\$896,002
Due to other funds	3,315,993	285,925		\$85,236			3,687,154
Due to other governmental entities	265,348					\$2,028,924	2,294,272
Deferred municipal license tax revenues	3,261,962						3,261,962
Deferred federal grant revenues		254,968					254,968
General obligation bonds						9,278,300	9,278,300
Notes Payable						180,000	180,000
Claims and judgments						26,214	26,214
Accrued compensated absences						964,788	964,788
Total liabilities	7,657,924	622,274		85,236		12,478,226	20,843,660
Fund equity:							
Investment in general fixed assets					\$31,527,873		31,527,873
Fund balances:							
Reserved for encumbrances	768,233						768,233
Reserved for debt service			\$1,482,120				1,482,120
Unreserved:							
Designated for specific fund purposes		52,627		6,135,193			6,187,820
Undesignated (deficit)	(5,600,957)						(5,600,957)
Total fund equity (deficit)	(4,832,724)	52,627	1,482,120	6,135,193	31,527,873		34,365,089
Total liabilities and fund equity	\$2,825,200	\$674,901	\$1,482,120	\$6,220,429	\$31,527,873	\$12,478,226	\$55,208,749

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$2,964,147		\$901,448		\$3,865,595
Municipal license taxes	5,003,645				5,003,645
Licenses and permits	966,930				966,930
Intergovernmental	2,549,444	\$903,529		\$1,350,237	4,803,210
Rent of property	34,763				34,763
Fines and penalties	5,066				5,066
Interest	406,423				406,423
Federal grants		2,731,177			2,731,177
Miscellaneous	669,399	77,348			746,747
Total revenues	<u>12,599,817</u>	<u>3,712,054</u>	<u>901,448</u>	<u>1,350,237</u>	<u>18,563,556</u>
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,172,572				1,172,572
General government	3,791,217	220,839			4,012,056
Public safety	506,774	140,123			646,897
Public works	2,651,352	259,886			2,911,238
Public health and sanitation	1,989,292				1,989,292
Welfare	251,183	673,608			924,791
Economic development	46,512	533,635			580,147
Recreation	582,831	59,548			642,379
Human services	241,893				241,893
Debt service:					
Principal retirement	25,800		580,000		605,800
Interest	32,976		681,644		714,620
Capital outlays	41,131	1,867,550		1,993,018	3,901,699
Total expenditures	<u>11,333,533</u>	<u>3,755,189</u>	<u>1,261,644</u>	<u>1,993,018</u>	<u>18,343,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,266,284</u>	<u>(43,135)</u>	<u>(360,196)</u>	<u>(642,781)</u>	<u>220,172</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers to other funds	(68,077)				(68,077)
Operating transfers from other funds				68,077	68,077
Total other financing sources (uses)	<u>(68,077)</u>			<u>68,077</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>1,198,207</u>	<u>(43,135)</u>	<u>(360,196)</u>	<u>(574,704)</u>	<u>220,172</u>
Fund balances (deficit), beginning as restated	<u>(6,030,931)</u>	<u>95,762</u>	<u>1,842,316</u>	<u>6,709,897</u>	<u>2,617,044</u>
Fund balances (deficit) , ending	<u>(\$4,832,724)</u>	<u>\$52,627</u>	<u>\$1,482,120</u>	<u>\$6,135,193</u>	<u>\$2,837,216</u>

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Property taxes	\$2,721,300	\$2,721,300	-	\$861,192	\$901,448	\$40,256
Municipal license taxes	4,945,736	5,003,645	\$57,909			
Licenses and permits	1,048,275	966,930	(81,345)			
Intergovernmental	1,957,613	2,506,186	548,573			
Rent of property	65,200	34,763	(30,437)			
Fines and penalties	4,100	5,066	966			
Interest	424,500	406,423	(18,077)			
Miscellaneous	649,580	669,399	19,819			
Total revenues	<u>11,816,304</u>	<u>12,313,712</u>	<u>497,408</u>	<u>861,192</u>	<u>901,448</u>	<u>40,256</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,302,175	1,271,442	30,733			
General government	3,839,310	3,857,512	(18,202)			
Public safety	598,060	513,038	85,022			
Public works	2,308,344	2,311,025	(2,681)			
Public health and sanitation	2,113,835	2,099,962	13,873			
Welfare	253,412	251,641	1,771			
Economic development	52,532	46,512	6,020			
Recreation	650,681	611,158	39,523			
Human services	269,862	266,916	2,946			
Capital outlays	255,710	47,022	208,688			
Debt service:						
Principal retirement	25,800	25,800	-	266,758	580,000	(313,242)
Interest	32,979	32,976	3	594,434	681,644	(87,210)
Total expenditures and encumbrances	<u>11,702,700</u>	<u>11,335,003</u>	<u>367,697</u>	<u>861,192</u>	<u>1,261,644</u>	<u>(400,452)</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances	<u>113,604</u>	<u>978,709</u>	<u>865,105</u>	<u>-</u>	<u>(360,196)</u>	<u>(360,196)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfer to other fund	(113,604)	(68,077)	45,527			
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing uses	<u>-</u>	<u>910,632</u>	<u>910,632</u>			
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		1,470				
GAAP adjustments to revenue		286,105				
Fund balances(deficit), beginning, as restated		(6,030,931)			1,842,316	
Fund balances(deficit) , ending		<u>(\$4,832,724)</u>			<u>\$1,482,120</u>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Las Piedras** (the Municipality) was established in 1801. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen members Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

A. Financial reporting entity:

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria exists a component unit, which should be included in the general-purpose financial statements.

The "Corporación de Desarrollo y Fomento Económico Las Piedras, C.D.", a non-profit organization and component unit, is part of the Municipality's reporting entity because of the significance of their operational or financial relationship with the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Financial reporting entity (continued):

The Mayor has the authority to appoint two directors, which do not have decision-making authority, for the Board of Directors of the component unit. The component unit operates with the primary purpose of promoting and assisting for the economic and housing development in the area located within the primary government. The financial statements of the "Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.", were not available to be included as part of the general-purpose financial statements.

A complete set of the financial statements of the component unit may be obtained from their administrative office located in 165 José C. Barbosa Street, P.O. Box 790, Las Piedras, Puerto Rico 00771.

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

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

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

B. Basis of presentation (continued):

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt -is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Reservations of fund balance:

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

Encumbrances – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

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

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgetary data (continued):

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Retirement System Administration	\$ 140,680
Puerto Rico Aqueduct and Sewer Authority	49,969
General Services Administration	39,102
Department of Treasury	<u>35,597</u>
Total	<u>\$ 265,348</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Department of Labor	\$ 309,329
Department of Treasury	120,013
Municipal Revenue Collection Center	<u>1,599,582</u>
Total	<u>\$ 2,028,924</u>

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. 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.

Tax rates are 8.53% for real property and 6.53% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.7% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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 CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES (CONTINUED):

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial Statements, the CRIM issued the preliminary liquidation noting that the collections were in excess of advances by \$485,694. One half of that amount was included as intergovernmental receivables in the General Fund at June 30, 2001.

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.00%
Organizations within municipal area	0.30%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

5. INTERGOVERNMENTAL (CONTINUED):

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$ 201,112
Certificates of deposit (90 days or less)	<u>2,000,000</u>
 Total cash and cash equivalents	 <u>\$ 2,201,112</u>

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

A summary of changes in the General Fixed Assets Account Group is as follows:

Description	Balance July 1, 2000	Additions and adjustments	Retirements and adjustments	Balance June 30, 2001
Land	\$ 2,386,898	\$ -	\$ -	\$ 2,386,898
Buildings and Improvements	16,934,373	3,133,867		20,068,240
Other Improvements	2,349,650	29,930		2,379,580
Furniture and Equipment	<u>6,525,665</u>	<u>229,956</u>	<u>(62,466)</u>	<u>6,693,155</u>
 Total	 <u>\$ 28,196,586</u>	 <u>\$ 3,393,753</u>	 <u>(\$ 62,466)</u>	 <u>\$ 31,527,873</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 9,615,000
Debt issued	-
Principal retirements	(580,000)
Adjustments and/or Reclassifications	<u>243,300</u>
Balance at June 30, 2001	<u>\$ 9,278,300</u>

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1987 Series	7-1-02	\$ 515,000	8.20 – 9.50%	\$ 100,000
1989 Series	10/1/08	216,000	8.00%	78,300
1991 Series	7-1-06	785,000	3.26 – 6.36%	440,000
1992 Series	7-1-02	975,000	4.16 – 6.06%	295,000
1993 Series	7-1-08	1,045,000	6.10 – 7.60%	730,000
1995 Series	7-1-14	5,025,000	4.70 – 8.00%	4,345,000
1996 Series	1-1-13	400,000	5.00 – 8.00%	345,000
1998 Series	7-1-23	3,040,000	0.00 – 7.81%	<u>2,945,000</u>
Total general obligation bonds				<u>\$ 9,278,300</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
<u>2002</u>	<u>\$ 575,800</u>
2003	620,800
2004	445,800
2005	470,800
2006	515,800
Thereafter	<u>6,649,300</u>
Total	<u>\$ 9,278,300</u>

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 1,189,100
Debt issued	-
Payments during the current year	(25,800)
Adjustments\Reclassifications	<u>(983,300)</u>
Balance at June 30, 2001	<u>\$ 180,000</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1994 Series	7-1-04	\$ 275,000	0.00% - 8.00%	<u>\$ 180,000</u>
Total notes payable				<u>\$ 180,000</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 55,000
2003	60,000
2004	<u>65,000</u>
Total	<u>\$ 180,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

Years of Service	Participant Age	Pension Benefits
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

Years of Service	Participant Age	Pension Benefits
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year-credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 310,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee's services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 26,214 in the general long-term debt account group for final unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of determined as liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General, Special Revenue and Capital Projects Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

Description	General	Special Revenue	Capital Projects
Beginning Fund Balances (Deficit) at July 1, 2000	\$ (6,474,875)	\$ 664,782	\$ 6,467,954
Accounting errors in beginning cash balances	4,162		
Reclassification of General Fund interfund debt with the Capital Project Fund	(326,779)		326,779
Reclassification of General Fund interfund debt with the Special Revenue Fund	187,825	(187,825)	
Reclassification of General Fund interfund receivable with the Special Revenue Fund	348,221	(348,221)	
Reclassification of Special Revenue Fund Balance to Deferred Federal Grant Revenue		(32,974)	
Adjustment of General Fund interfund receivable from Special Revenue Fund	(15,777)		
General Fund interfund receivable from Special Revenue Fund not recorded	161,456		
General Fund interfund receivable from Capital Project Fund not recorded	84,836		(84,836)
Beginning Fund Balances (Deficit) at July 1, 2000, as restated	<u>\$ (6,030,931)</u>	<u>\$ 95,762</u>	<u>\$ 6,709,897</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Nutrition Program for the Elderly	10.570		\$ 30,524
Total U.S. Department of Agriculture			<u>30,524</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program (Cluster of Programs):			
Section 8 Rental Voucher Program	14.855		324,991
Section 8 Rental Certificate Program	14.857		70,680
Total Cluster of Programs			<u>395,671</u>
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants-State Program	14.228		
		93-FD-55	76
		94-FD-55	79
		95-FD-55	1,440
		96-FD-55	41,094
		97-FD-55	20,497
		98-FD-55	717,158
		99-FD-55	605,353
		00-FD-55	459,867
			<u>1,845,564</u>
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	12,597
Total U.S. Department of Housing and Urban Development			<u>2,253,832</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety and Community Policing Grants	16.710		59,949
Pass-through the Commonwealth of Puerto Rico - Local Department of Justice Local Law and Enforcement Block Grant	16.592	Not Available	<u>65,743</u>
Total U.S. Department of Justice			<u>125,692</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Highway and Transportation Authority: Federal Transit - Capital Improvement Grant	20.500	Not Available	<u>31,509</u>
Total U.S. Department of Transportation			<u>31,509</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency Emergency Management - State and Local Assistance	83.534	Not Available	8,852
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR): Public Assistance Grant	83.544	1136-DRPR	<u>213,432</u>
Total U.S. Federal Emergency Management Agency			<u>222,284</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Program for Aging - Title III, Part B - Grant for Supporting Services and Senior Centers	93.044	Not Available	57,334

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Service Block Grant	93.569	Not Available	<u>10,002</u>
Total U.S. Department of Health and Human Services			<u>67,336</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,731,177</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Las Piedras** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,731,177
Non federal programs expenditures	<u>1,024,012</u>
Total expenditures in the general purpose financial Statements	<u>\$ 3,755,189</u>



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor
and the Municipal Assembly
Municipality of Las Piedras
Las Piedras, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Las Piedras** as of and for the year ended June 30, 2001, and have issued our report thereon dated January 30, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's did not provide to us the audited financial statements of the "Corporación de Desarrollo y Fomento de Las Piedras, C.D.", a discrete component unit; such discrete component unit was not included on the accompanying general-purpose financial statements as required by Governmental Accounting Standard Board Statement 14. Except as discussed in the preceding sentences, 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 Piedras's** general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

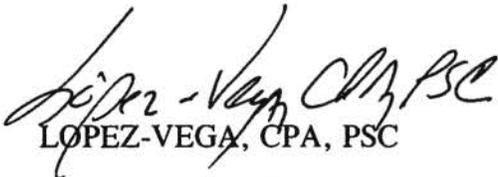
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Las Piedras's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Las Piedras's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items **01-01** through **01-04**.

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

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 reportable conditions that are also considered to be material weaknesses. However, we believe items **01-01** and **01-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Las Piedras** in a separate letter dated January 30, 2002.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 30, 2002

Stamp No.1785243 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**INDEPENDENT AUDITORS' 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 the Municipal Assembly
Municipality of Las Piedras
Las Piedras, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Las Piedras** 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, 2001. The **Municipality of Las Piedras's** major federal programs is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Las Piedras's** management. Our responsibility is to express an opinion on the **Municipality of Las Piedras's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Las Piedras's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Las Piedras's** compliance with those requirements.

In our opinion, the **Municipality of Las Piedras** 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, 2001. 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 items, **01-05** through **01-12**.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Las Piedras's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-05** through **01-12**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **01-05** through **01-07**, and **01-09** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Las Piedras** in a separate letter dated January 30, 2002.



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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 30, 2002

Stamp No.1785244 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2001

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: **Qualified**

Internal control over financial reporting:

Material weakness identified? Yes X No

Reportable conditions identified
not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes X No

Reportable conditions identified not considered to be
material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance
for major programs: **Unqualified**

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State’s Program
14.855	Section 8 Rental Voucher Program
14.857	Section 8 Rental Certificate Program

Dollar threshold used to distinguish
between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-01
Requirement	Fixed\ Capital Assets and Expenditures - Subsidiary Ledger
Statement of Condition	During our examination of the Municipality's property records and reports we noted the following deficiencies: (a) balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; (b) there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger and (c) Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger.
Criteria	The federal regulations establish that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records.
Cause of Condition	There is no internal control procedures implemented to assure the completeness of the property records and reports.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.
Recommendation	We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	The Municipality did not include in your general-purpose financial statements, audited financial information related to the “Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.”, a Discrete Component Unit.
Criteria	<i>GASB Statement No. 14</i> requires that the financial information of component units not be blended with similar financial information of the primary government. Rather, such information should be presented in a discrete column in the combined financial statements of the financial reporting entity.
Cause of Condition	The Municipality was unable to obtain audited financial statements of the “Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.”, a Discrete Component Unit.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 14</i> requirements.
Recommendation	We recommend to the Municipality Management to require annual audited financial statements of the “Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.” to the Component Unit management, to include them in the financial reporting entity general-purpose financial statements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference 01-03

Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality’s accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-04
Requirement	Payroll and Related Liabilities- Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of sixty (60) personnel files. The following will summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. One (1) employee's time assistance card did not agree with the accumulated vacation card.b. In seven (7) cases the gross wage rate per payroll does not agree with the information on the employee file.c. In six (6) cases vacations accrued as of 6/30/01 record does not agree with the List of Accrued Compensated Absences (Vacations and Sick Leave) as of 6/30/01 prepared by the Human Resources Department.d. In five (5) cases sick leave accrued as of 6/30/01 does not agree with the List of Accrued Compensated Absences (Vacations and Sick Leave) as of 6/30/01 prepared by the Human Resources Department.e. In one (1) case the employee position per payroll does not agree with employee file.
Criteria	<p>The Revised Regulation on Basic Standards for the Municipalities of P.R. in the Chapter IV Section 18-(1) establishes that the Municipality will prepare the payroll based on the employee files.</p>
Cause of Condition	<p>There is no internal control procedure implemented to assure the correctness of accrued vacation and sickness balances.</p>
Effect of Condition	<p>The Municipality does not maintain an adequate control over the personnel files and vacation and sick leave computation worksheet.</p>
Recommendation	<p>We recommend that the Municipality should establish procedures to assure that compensated absences cards are accurately prepared based on the information obtained from the time assistance cards duly certified by the employee and the supervisor and to maintain internal control procedures to assure that gross salary per employee used for payroll preparation purposes is the gross salary authorized for such employee.</p>
Questioned Costs	<p>None</p>
Management Response	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-05
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Allowable Activities
Statement of Condition	<p>During our audit of twenty-five (25) housing rehabilitation files, we noted the following situations:</p> <ul style="list-style-type: none">a. In twenty-five (25) cases the rehabilitation contract did not specify which were the participant housing unit deficiencies to be corrected. The contract made reference to the Purchase Order.b. In twenty-five (25) cases the initial inspection form did not specify which were the participant housing unit deficiencies to be corrected.c. In twenty-five (25) cases the eligibility determination was not properly documented.d. In thirteen (13) cases no evidence was found in the file showing that the grantee inspected the rehabilitation work upon completion in order to assure that it was carried out in accordance with contract specifications.e. In four (4) cases the file did not include adequate evidence of family income.f. In three (3) cases the file did not included adequate evidence of residence existence.g. In eight (8) cases the contribution was for a house under construction (new construction) and not for an existing housing unit as required in the CDBG-State Program’s Annual Proposal and Grant Agreement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-05 (Continued)
Criteria	24 CFR, Section 570.484 states that the grantee must assure that the State funds must benefit low- and moderate income families and retain documentation justifying its certifications. Also the Grant Agreement establishes that the proposal approved by Office of Commissioner of Municipal Affairs (OCAM) is part of the contract. The proposal states that the Preservation of Existing Deteriorated Housing Units project funds were for the rehabilitation of existing housing units.
Cause of Condition	The program has not establish adequate internal control procedures to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained.
Effect of Condition	Municipality is not in compliance with 24 CFR, Section 570.484 and Grant Agreement.
Recommendation	We recommend the Program to establish the following procedures: <ul style="list-style-type: none">a. Ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract.b. Realize pre-rehabilitation inspection describing the participant housing unit deficiencies to be corrected.c. Assign a staff to inspect the rehabilitation work upon completion to and to assure that is carried out in accordance with contracts specifications.d. Assure that all participant's files include all required documentations such as eligibility determination, adequate evidence of family income and evidence of residence existence.e. Assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG – State's Program Annual Proposal.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-06
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of Commissioner of Municipal Affairs (OCAM) Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	<p>We realized Cash Management Test and after our procedures were performed we found the following exceptions:</p> <ul style="list-style-type: none">a. During the audit of Community Development Block Grant- State's Program we could not trace the funds received from the Federal Agency with the disbursements of checks.b. The Municipality requested funds that were not disbursed on a reasonable lapse of time.c. The Community Development Block Grant-State's Program maintains an excessive average cash balance in books: the average adjusted cash balance per month per bank account was \$ 56,737 (Account no. 120-124238).d. The Section 8 Rental Programs maintains an excessive average cash balance: the average adjusted cash balances per month per bank accounts were \$ 48,182 (Account no. 120-123916), \$ 18,146 (Account no. 120-123908), and \$ 27,327 (Account no. 311-013293), respectively.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7) states that units of general local governments shall use procedures to minimize the time elapsed between the transfer of funds by the state and disbursements for CDBG activities, according with Treasury Circular 1075. Units of general local government shall also use procedures to minimize the time elapsed between the transfer of funds by the state and disbursement of CDBG activities.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-06 (Continued)
Cause of Condition	The Federal Program Department does not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-07
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Equipment and Real Property Management
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 01-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-08
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provision test we noted the following situations: <ul style="list-style-type: none">a. Five (5) contracts did not include provision for termination by default.b. Four (4) contracts did not include provision for compliance with the Clean Air Act and Water Act.c. Five (5) contracts did not include provision for compliance with Energy Policy and Conservation Act.
Criteria	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality procurement control procedures file to detect the exclusion of certain contract clauses.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).
Recommendation	We recommend management to update contract model according with the federal requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs



Finding Reference 01-09

Program Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development

Requirement Eligibility Test

Statement of Condition We performed an eligibility test and examined a sample of forty (40) participant files. The following will summarize the deficiencies found:

- a. In twenty-two (22) cases there was no evidence of application form in the participant file.
- b. In forty (40) cases there was no Federal-prescribed general release form for employment information signed by the head of household.
- c. In forty (40) cases there was no Privacy Act Notice Form signed by the head of household.
- d. In sixteen (16) cases some members of the family who are at least 18 years old did not sign the application form and/or other release forms included in the participant's file.
- e. In four (4) cases there was no adequate evidence of family income.
- f. In five (5) cases there was no copy of the social security card of one or more members of the family.
- g. In one (1) case one member of the family had criminal record.
- h. In four (4) cases there was no evidence of Certificate of Good Behavior of one or more family members.
- i. In two (2) cases the family picture presented was not actual.
- j. In two (2) cases the eligibility determination form was not signed by the appropriate official.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-09 (Continued)
Criteria	Code of Federal Regulations 24, Sections 5.212, 5.230, and 5.601 through 5.617 as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a Federal-prescribed general release form for employment information and a privacy act notice.
Cause of Condition	The Municipality did not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212, 5.230, and 5.601 through 5.617.
Recommendation	We recommend the Program to establish the following procedures: a. Provide an application form to be filled by the participant and signed by all members of the family who are at least 18 years old. b. Provide a Federal-prescribed general release form for employment information and a Privacy Act Notice to be signed by all members of the family who are at least 18 years old. c. Implement internal control procedures to assure that the participant's files include all documentation required by federal agencies.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

N/A

Finding Reference	01-10
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test – Reasonable Rent
Statement of Condition	During our verification of forty (40) participant files we noted that for twelve (12) cases the PHA prepared the HUD 50058 Form, Family Report (OMB No. 2577-0083) but this form had an error in the calculation of the tenant's payment. HUD corrected the error during the fiscal year but the PHA did not update the Family report in order to calculate the total tenant rent and Housing Assistance Payment (HAP) with the corrected formula. This caused that some participant paid more or less rent than required.
Criteria	Code of Federal Regulations 24, Sections 5.613 and 982.516 requires that the PHA verifies the income eligibility and adjust the total tenant rent and HAP in accordance with the regulation.
Cause of Condition	The Federal Program Department did not update the HUD 50058 Form, Family Report (OMB No. 2577-0083) every time there is a change in family composition, family income or other situations that may affect the calculation of the HAP.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.613 and 982.516.
Recommendation	We recommend that the HUD 50058 Form, Family Report (OMB No. 2577-0083) be updated every time there is a change in family composition, family income or other situations that may affect the calculation of the total tenant payment.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

N/A

Finding Reference	01-11
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections
Statement of Condition	During our verification of forty (40) participant files we noted the following deficiencies: <ul style="list-style-type: none">a. In two (2) cases the unit leased was not subject to the annual inspection.b. In two (2) cases the inspection form was not signed by the inspector and did not state the date of inspection.c. In the forty (40) cases revised we did not find evidence of quality control re-inspections.d. We observed that the inspections that found deficiencies were not documented. In these situations they only documented the re-inspections realized in order to verify if the deficiencies were corrected.
Criteria	Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also, the PHA must prepare a unit inspection report.
Cause of Condition	Management does not have adequate internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-11 (Continued)**

Recommendation We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

N/A

Finding Reference	01-12
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Enforcement
Statement of Condition	During our verification of forty (40) participant files we noted the following deficiencies: <ul style="list-style-type: none">a. In four (4) cases the file does not document that the PHA require correction of any cited HQS deficiencies within 30 calendar days of the inspection.b. In three (3) cases where the correction period ended, there was no evidence of re-inspection report or other evidence of verification documenting that the PHA-required repairs were completed.
Criteria	Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.404 states that for units under contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner fails to correct the deficiencies the PHA must stop the HAP payments.
Cause of Condition	Management does not have adequate internal control procedures to assure that in all cases they document their requirement of correction of any cited HQS deficiencies within 30 calendar days of the inspection and that they realize and document the re-inspections to assure that PHA-required repairs were completed.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.404.
Recommendation	We recommend management to implement internal control procedures to assure that in all cases they document their requirement of correction of any cited HQS deficiencies within 30 calendar days of the inspection and that they realize and document the re-inspections to assure that PHA-required repairs were completed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-12 (Continued)**

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-III-01	14.228	<p><u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u></p> <p>No corrective action has been taken. The money requested through requisitions to the Office of Commissioner of Municipal Affairs takes approximately 30 days for its approval. Due to this situation, we requisitioned funds in advance to cover the program expenditures for each month. It was recommended to the Grantee management, to make adequate arrangements so that the distribution of funds is done according to the Federal Regulations.</p>
00-III-02	14.855	<p><u>Participant files do not have evidence of HUD-approved release and consent forms submitted by the family.</u></p> <p>No corrective action has been taken. We obtain a HUD-approved release and consent forms in order to include its on participant files. Such forms will be required as part of annual re-examination or new admission during the fiscal year 2001-2002.</p>
00-III-03	14.228	<p><u>Federal Program Department does not have a property register.</u></p> <p>No corrective action has been taken. The Municipality should organize a GASB 34 Team composed by municipal employees and contracted professionals (if necessary) in order to actualize real property, personal property and infrastructure inventory to comply with GASB 34 requirements</p>
00-III-04	14.228	<p><u>Construction contracts over 10,000 did not contain the clauses detailed for compliance with the Clean Air Act & Clean Water Act and the Energy Policy and Conservation Act.</u></p> <p>No corrective action has been taken. The contracts will be updated to include all clauses required by Federal statutes, executive orders and implementing regulations.</p>
00-III-05	14.855	<p><u>A unit with the correction period ended, does not have a unit inspection report or evidence of other verification documenting that the PHA-required repairs were completed.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The Municipality Mayor will assign a municipal employee as a full time housing inspector during the fiscal year 2001-2002.
00-III-06	14.855 14.857	<u>Participant's files do not have a unit inspection report.</u> No corrective action has been taken. The Municipality Mayor will assign a municipal employee as a full time housing inspector during the fiscal year 2001-2002.
00-III-07	14.855 14.857	<u>Administration plan was not followed in the determination of reasonable rent to the owner.</u> Full corrective action has been taken.
99-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u> No corrective action has been taken. The money requested through requisitions to the Office of Commissioner of Municipal Affairs takes approximately 30 days for its approval. Due to this situation, we requisitioned funds in advance to cover the program expenditures for each month. It was recommended to the Grantee management, to make adequate arrangements so that the distribution of funds is done according to the Federal Regulations.
99-III-03	14.228	<u>Federal Program Department does not have a property register.</u> No corrective action has been taken. The Municipality should organize a GASB 34 Team composed by municipal employees and contracted professionals (if necessary) in order to actualize real property, personal property and infrastructure inventory to comply with GASB 34 requirements.
98-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p>No corrective action has been taken. The money requested through requisitions to the Office of Commissioner of Municipal Affairs takes approximately 30 days for its approval. Due to this situation, we requisitioned funds in advance to cover the program expenditures for each month. It was recommended to the Grantee management, to make adequate arrangements so that the distribution of funds is done according to the Federal Regulations.</p>
98-III-02	14.228	<p><u>Federal Program Department does not have a property register.</u></p> <p>No corrective action has been taken. The Municipality should organize a GASB 34 Team composed by municipal employees and contracted professionals (if necessary) in order to actualize real property, personal property and infrastructure inventory to comply with GASB 34 requirements.</p>

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DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Assembly
Municipality of Las Piedras
Las Piedras, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Las Piedras**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The **Municipality of Las Piedras** accounting system and subsidiary records of property and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose financial statements. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

We are unable to obtain audited financial statements of the "Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.", a Discrete Component Unit, and that was not included on the accompanying general-purpose financial statements. Accordingly, we do not express an opinion about the reporting entity structure.

INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group of the Municipality and the balances and transactions disclosed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Las Piedras** as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 20, 2001

Stamp No.1700901 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash and cash equivalents	\$2,001,002	\$200,110					\$2,201,112
Cash with fiscal agent		143,182	\$1,482,120	\$ 2,964,854			4,590,156
Intergovernmental receivables	298,687	106,559					405,246
Municipal license taxes receivable	52,507						52,507
Federal grants receivable		160,891					160,891
Due from other funds	371,161	60,418		3,255,575			3,687,154
Other receivables	101,843	3,741					105,584
Property and equipment					\$31,527,873		31,527,873
Amount available in Debt Service Fund						\$1,482,120	1,482,120
Amount to be provided for retirement of general long-term debt						10,969,892	10,969,892
Total assets and other debits	\$2,825,200	\$674,901	\$1,482,120	\$6,220,429	\$31,527,873	\$12,452,012	\$55,182,535
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$814,621	\$81,381					\$896,002
Due to other funds	3,315,993	285,925		\$85,236			3,687,154
Due to other governmental entities	265,348					\$2,028,924	2,294,272
Deferred municipal license tax revenues	3,261,962						3,261,962
Deferred federal grant revenues		254,968					254,968
General obligation bonds						9,278,300	9,278,300
Notes Payable						180,000	180,000
Claims and judgments						26,214	26,214
Accrued compensated absences						964,788	964,788
Total liabilities	7,657,924	622,274		85,236		12,478,226	20,843,660
Fund equity:							
Investment in general fixed assets					\$31,527,873		31,527,873
Fund balances:							
Reserved for encumbrances	768,233						768,233
Reserved for debt service			\$1,482,120				1,482,120
Unreserved:							
Designated for specific fund purposes		52,627		6,135,193			6,187,820
Undesignated (deficit)	(5,600,957)						(5,600,957)
Total fund equity (deficit)	(4,832,724)	52,627	1,482,120	6,135,193	31,527,873		34,365,089
Total liabilities and fund equity	\$2,825,200	\$674,901	\$1,482,120	\$6,220,429	\$31,527,873	\$12,478,226	\$55,208,749

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$2,964,147		\$901,448		\$3,865,595
Municipal license taxes	5,003,645				5,003,645
Licenses and permits	966,930				966,930
Intergovernmental	2,549,444	\$903,529		\$1,350,237	4,803,210
Rent of property	34,763				34,763
Fines and penalties	5,066				5,066
Interest	406,423				406,423
Federal grants		2,731,177			2,731,177
Miscellaneous	669,399	77,348			746,747
Total revenues	<u>12,599,817</u>	<u>3,712,054</u>	<u>901,448</u>	<u>1,350,237</u>	<u>18,563,556</u>
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,172,572				1,172,572
General government	3,791,217	220,839			4,012,056
Public safety	506,774	140,123			646,897
Public works	2,651,352	259,886			2,911,238
Public health and sanitation	1,989,292				1,989,292
Welfare	251,183	673,608			924,791
Economic development	46,512	533,635			580,147
Recreation	582,831	59,548			642,379
Human services	241,893				241,893
Debt service:					
Principal retirement	25,800		580,000		605,800
Interest	32,976		681,644		714,620
Capital outlays	41,131	1,867,550		1,993,018	3,901,699
Total expenditures	<u>11,333,533</u>	<u>3,755,189</u>	<u>1,261,644</u>	<u>1,993,018</u>	<u>18,343,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,266,284</u>	<u>(43,135)</u>	<u>(360,196)</u>	<u>(642,781)</u>	<u>220,172</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers to other funds	(68,077)				(68,077)
Operating transfers from other funds				68,077	68,077
Total other financing sources (uses)	<u>(68,077)</u>			<u>68,077</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>1,198,207</u>	<u>(43,135)</u>	<u>(360,196)</u>	<u>(574,704)</u>	<u>220,172</u>
Fund balances (deficit), beginning as restated	<u>(6,030,931)</u>	<u>95,762</u>	<u>1,842,316</u>	<u>6,709,897</u>	<u>2,617,044</u>
Fund balances (deficit), ending	<u>(\$4,832,724)</u>	<u>\$52,627</u>	<u>\$1,482,120</u>	<u>\$6,135,193</u>	<u>\$2,837,216</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001**

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Property taxes	\$2,851,010	\$2,851,010		\$841,389	\$820,338	(\$21,051)
Municipal license taxes	1,420,000	1,392,600	(\$27,400)			
Licenses and permits	240,000	264,935	24,935			
Intergovernmental	3,705,330	3,965,433	260,103			
Rent of property	150,061	144,951	(5,110)			
Fines and penalties	2,000	7,290	5,290			
Interest	408,588	343,034	(65,554)			
Miscellaneous	1,384,088	763,509	(620,579)			
Total revenues	<u>10,161,077</u>	<u>9,732,762</u>	<u>(428,315)</u>	<u>841,389</u>	<u>820,338</u>	<u>(21,051)</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,036,409	1,034,424	1,985			
General government	4,715,375	5,135,297	(419,922)			
Public safety	769,063	781,209	(12,146)			
Public works	1,027,006	1,099,595	(72,589)			
Public health and sanitation	1,365,121	1,360,369	4,752			
Economic development	374,737	372,472	2,265			
Recreation	451,715	446,573	5,142			
Human services	321,725	319,874	1,851			
Capital outlays	26,876	29,036	(2,160)			
Debt service:						
Principal retirement	45,000	45,000		532,000	502,000	30,000
Interest	28,050	23,991	4,059	537,153	545,377	(8,224)
Total expenditures and encumbrances	<u>10,161,077</u>	<u>10,647,840</u>	<u>(486,763)</u>	<u>1,069,153</u>	<u>1,047,377</u>	<u>21,776</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances		(915,078)	(915,078)		(227,039)	725
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		145,087				
GAAP adjustments to revenues		(21,214)				
Fund balances (deficit) beginning, as restated		<u>(629,903)</u>		<u>2,008,888</u>		
Fund balances (deficit), ending		<u><u>(\$1,421,108)</u></u>		<u><u>\$1,781,849</u></u>		

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Las Piedras** (the Municipality) was established in 1801. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen members Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

A. Financial reporting entity:

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria exists a component unit, which should be included in the general-purpose financial statements.

The "Corporación de Desarrollo y Fomento Económico Las Piedras, C.D.", a non-profit organization and component unit, is part of the Municipality's reporting entity because of the significance of their operational or financial relationship with the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

A. Financial reporting entity (continued):

The Mayor has the authority to appoint two directors, which do not have decision-making authority, for the Board of Directors of the component unit. The component unit operates with the primary purpose of promoting and assisting for the economic and housing development in the area located within the primary government. The financial statements of the "Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.", were not available to be included as part of the general-purpose financial statements.

A complete set of the financial statements of the component unit maybe is obtain from their administrative office located in 165 José C. Barbosa Street, P.O. Box 790, Las Piedras, Puerto Rico 00771.

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

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

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

B. Basis of presentation (continued):

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt -is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Reservations of fund balance:

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

Encumbrances – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

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

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgetary data (continued):

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as an expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Retirement System Administration	\$ 140,680
Puerto Rico Aqueduct and Sewer Authority	49,969
General Services Administration	39,102
Department of Treasury	<u>35,597</u>
Total	<u>\$ 265,348</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Department of Labor	\$ 309,329
Department of Treasury	120,013
Municipal Revenue Collection Center	<u>1,599,582</u>
Total	<u>\$ 2,028,924</u>

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. 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.

Tax rates are 8.53% for real property and 6.53% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.7% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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 CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES (CONTINUED):

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial Statements, the CRIM issued the preliminary liquidation noting that the collections were in excess of advances by \$485,694. One half of that amount was included as intergovernmental receivables in the General Fund at June 30, 2001.

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.00%
Organizations within municipal area	0.30%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

5. INTERGOVERNMENTAL (CONTINUED):

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$ 201,112
Certificates of deposit (90 days or less)	<u>2,000,000</u>
 Total cash and cash equivalents	 <u>\$ 2,201,112</u>

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

A summary of changes in the General Fixed Assets Account Group is as follows:

Description	Balance July 1, 2000	Additions and adjustments	Retirements and adjustments	Balance June 30, 2001
Land	\$ 2,386,898	\$ -	\$ -	\$ 2,386,898
Buildings and Improvements	16,934,373	3,133,867		20,068,240
Other Improvements	2,349,650	29,930		2,379,580
Furniture and Equipment	<u>6,525,665</u>	<u>229,956</u>	<u>(62,466)</u>	<u>6,693,155</u>
 Total	 <u>\$ 28,196,586</u>	 <u>\$ 3,393,753</u>	 <u>(\$ 62,466)</u>	 <u>\$ 31,527,873</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 9,615,000
Debt issued	-
Principal retirements	(580,000)
Adjustments and/or Reclassifications	243,300
Balance at June 30, 2001	\$ 9,278,300

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1987 Series	7-1-02	\$ 515,000	8.20 – 9.50%	\$ 100,000
1989 Series	10/1/08	216,000	8.00%	78,300
1991 Series	7-1-06	785,000	3.26 – 6.36%	440,000
1992 Series	7-1-02	975,000	4.16 – 6.06%	295,000
1993 Series	7-1-08	1,045,000	6.10 – 7.60%	730,000
1995 Series	7-1-14	5,025,000	4.70 – 8.00%	4,345,000
1996 Series	1-1-13	400,000	5.00 – 8.00%	345,000
1998 Series	7-1-23	3,040,000	0.00 – 7.81%	2,945,000
Total general obligation bonds				\$ 9,278,300

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 575,800
2003	620,800
2004	445,800
2005	470,800
2006	515,800
Thereafter	6,649,300
Total	\$ 9,278,300

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 1,189,100
Debt issued	-
Payments during the current year	(25,800)
Adjustments\Reclassifications	<u>(983,300)</u>
Balance at June 30, 2001	<u>\$ 180,000</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1994 Series	7-1-04	\$ 275,000	0.00% - 8.00%	<u>\$ 180,000</u>
Total notes payable				<u>\$ 180,000</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 55,000
2003	60,000
2004	<u>65,000</u>
Total	<u>\$ 180,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year-credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 310,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee's services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 26,214 in the general long-term debt account group for final unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of determined as liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General, Special Revenue and Capital Projects Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

Description	General	Special Revenue	Capital Projects
Beginning Fund Balances (Deficit) at July 1, 2000	\$ (6,474,875)	\$ 664,782	\$ 6,467,954
Accounting errors in beginning cash balances	4,162		
Reclassification of General Fund interfund debt with the Capital Project Fund	(326,779)		326,779
Reclassification of General Fund interfund debt with the Special Revenue Fund	187,825	(187,825)	
Reclassification of General Fund interfund receivable with the Special Revenue Fund	348,221	(348,221)	
Reclassification of Special Revenue Fund Balance to Deferred Federal Grant Revenue		(32,974)	
Adjustment of General Fund interfund receivable from Special Revenue Fund	(15,777)		
General Fund interfund receivable from Special Revenue Fund not recorded	161,456		
General Fund interfund receivable from Capital Project Fund not recorded	84,836		(84,836)
Beginning Fund Balances (Deficit) at July 1, 2000, as restated	<u>\$ (6,030,931)</u>	<u>\$ 95,762</u>	<u>\$ 6,709,897</u>



Hon. Angel R. Peña Rosa
Alcalde

*Estado Libre Asociado
de Puerto Rico
Gobierno Municipal
Las Piedras, P.R.*

April 29, 2002

Federal Audit Clearinghouse
Bureau of the Census

Dear Sir:

Enclosed you will find the Corrective Action Plan for the Year Ended June 30, 2001. If there any questions please do not hesitate to contact me at the following phone number 1-787-733-0927.

Thank you.

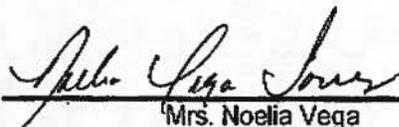
Sincerely,

Angel R. Peña Rosa
Mayor
Municipality of Las Piedras

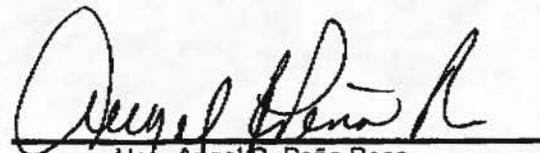
MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-II-01	Mrs. Noelia Vega	Management agrees with the finding and the recommendation.	The person in charge of the property will be appraisals and or valuations of all property and to register such property according to the correct values of property. This information will be used to update the register in the finance department.	July 31,2003
01-II-02	Mrs. Noelia Vega	Management agrees with the finding and the recommendation.	The mayor has asked the corporation to prepare the finance statements to be integrated into the fiscal information of the municipality.	July 31,2002
01-II-03	Mrs. Noelia Vega	Management agrees with the finding and the recommendation.	Precise and accurate instructions were given to the finance department to establish a plan to collect, authorize and register all transactions into complete reports to support the registered accounting in the system.	April 30,2002

The information stated above has been determined to be accurate based upon information available as audit report date.



 Mrs. Noelia Vega
 Finance Director

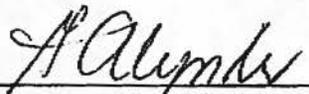


 Hon. Angel R. Peña Rosa
 Mayor

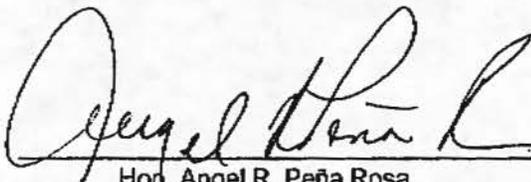
MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-II-04	Ms. Gildred Alejandro	Management agrees with the finding and the recommendations.	The Human Resources director will examine all the employee's accumulated vacation cards and compare these against the employee time cards. At the same time, these cards must reconcile with the final reports of accumulated vacations and sick time at the end of the year.	August 31, 2002

The information stated above has been determined to be accurate based upon information available as audit report date.



 Ms. Gildred Alejandro
 Human Resources Sub-Director

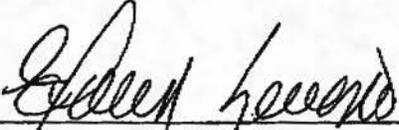


 Hon. Angel R. Peña Rosa
 Mayor

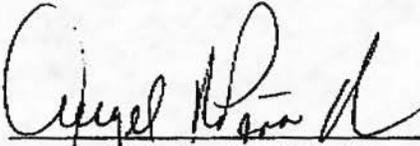
MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-III-05	Mr. Edwin Serrano	Management agrees with the finding and the recommendations.	After discussing the finding with the auditors, we proceeded to establish the necessary administrative controls to correct this issue and to assure that this situation will not be repeated, nor will occur in the future.	May 31, 2002
01-III-09	Mrs. Edwin Serrano	Management agrees with the finding and the recommendations.	The Municipality Mayor gave instructions to the Section Program Director in order to develop and implement a checklist containing all documents required to be filed in each participant file, and then examine all participant files using that checklist to identify missing documents and obtain its promptly.	May 31, 2002

The information stated above has been determined to be accurate based upon information available as audit report date.



 Mr. Edwin Serrano
 Section 8 Program Director

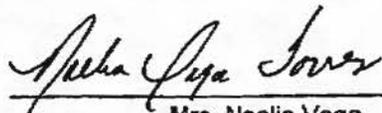


 Hon. Angel R. Peña Rosa
 Mayor

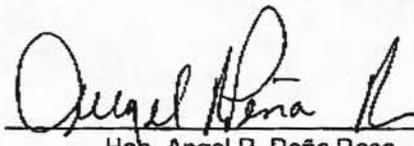
MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-III-06	Mrs. Noelia Vega	Management agrees with the finding and the recommendations.	The finance department will coordinate with the federal programs to accelerate the disbursement process of Federal Funds once the funds are deposited into the account.	July 31,2002
01-III-07	Mrs. Noelia Vega	Management agrees with the finding and the recommendations.	Refer and read number 01-II-01	July 31,2003

The information stated above has been determined to be accurate based upon information available as audit report date.



Mrs. Noelia Vega
 Finance Director

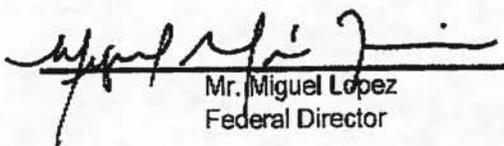


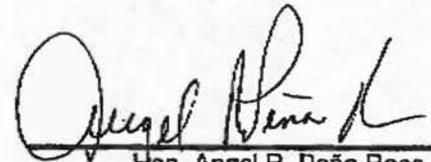
Hon. Angel R. Peña Rosa
 Mayor

MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-III-08	Mr. Miguel Lopez	Management agrees with the finding and the recommendation.	Will be evaluated with the legal council to assure that all municipal contracts will be in harmony and according to the required clauses of the Federal Regulations.	May 20,2002

The information stated above has been determined to be accurate based upon information available as audit report date.

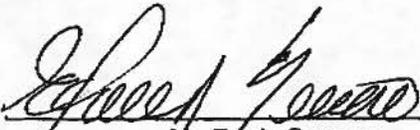

 Mr. Miguel Lopez
 Federal Director

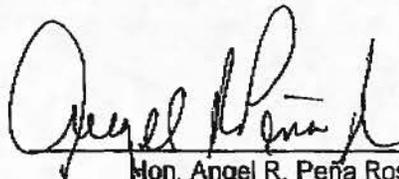

 Hon. Angel R. Peña Rosa
 Mayor

MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-III-10	Mr. Edwin Serrano	Management agrees with the finding and the recommendations.	After discussing the finding with the auditors, we proceeded to establish the necessary administrative controls to correct this issue and to assure that this situation will not be repeated, nor will occur in the future.	May 31,2002
01-III-11	Mrs. Edwin Serrano	Management agrees with the finding and the recommendations.	The Mayor gave precise instructions to the Section 8 Program Director as to perform the inspections required by the Federal Regulations.	May 31,2002

The information stated above has been determined to be accurate based upon information available as audit report date.

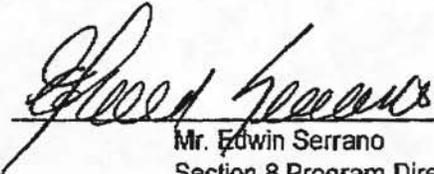

 Mr. Edwin Serrano
 Section 8 Program Director

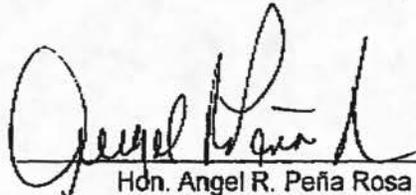

 Hon. Angel R. Peña Rosa
 Mayor

MUNICIPALITY OF LAS PIEDRAS
 LAS PIEDRAS, PUERTO RICO
 CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2001

NUMBER FINDING	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
01-III-12	Mr. Edwin Serrano	Management agrees with the finding and the recommendations.	After discussing the finding with the auditors, we proceeded to establish the necessary administrative controls to correct this issue and to assure that this situation will not be repeated, nor will occur in the future.	May 31, 2002

The information stated above has been determined to be accurate based upon information available as audit report date.


 Mr. Edwin Serrano
 Section 8 Program Director


 Hon. Angel R. Peña Rosa
 Mayor

ERROR REPORT

NAME:
 TEL :
 DATE:03/10'03 16:14

TRANSMIT: 17872617958			DURATION	PAGE	SESS	RESULT
TYPE : MEMORY TX	MODE	24	00'00	00	589	NO ANSWER

OCAM

OFICINA DE LA COMISIONADA DE ASUNTOS MUNICIPALES



A: HON. VICTOR J. SANTIAGO
 ALCALDE
ENTIDAD: MUNICIPIO DE TOA BAJA

NUMERO DE FAX: (1-787) 261-7958

NUMERO DE PAGINAS: 3 INCLUYENDO ESTA PORTADA

DE: LCDA. BARBARA SANFIORENZO-COMISIONADA

ENVIADO POR: SRA. F. MARTINEZ-SECRETARIA LEGAL

NUMERO DE FAX: (787)282-0354

FECHA: 10 DE MARZO DE 2003

ASUNTO: CONTESTACION A SU CONSULTA DEL 4 DE MARZO DE 2003, SOBRE LAS COMISIONES ESPECIALES DE LA LEGISLATURA MUNICIPAL.

Cláusula de Confidencialidad: La información que contiene este Fax es para el uso único y exclusivo del recipiente a quien se le dirige. Si cualquier persona recibiese este Fax equivocadamente, la misma debe de llamar inmediatamente al (787) 754-1600, ext. 205, 206 o 208 y notificar que devolverá el Fax original recibido al remitente. Violación sobre el uso de información confidencial de este Fax es castigable por Ley Federal.

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Gobierno Municipal de Naguabo
OFICINA AUDITORIA INTERNA

AUDITORIA INTERNA

HOJA FACSIMIL

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PARA: SR. RAYMÓN VEGA
OCAM

NUM FAX: (787) 282-0354

DE: 
SR. WILSON GALARZA TOLENTINO

FECHA / HORA: 10/03/03 at 4:14 PM

ASUNTO: COPIA PLAN ACCIÓN CORRECTIVA DE SINGLE
AUDIT FINALIZADO AL 30 DE JUNIO DE 2001. EL
PLAN DE ACCIÓN CORRECTIVA DEL AÑO
FINALIZADO AL 30 DE JUNIO DE 2002 LO RECIBIÓ
EL SR. RAFAEL APONTE DE OCAM.

NUM. PAGINAS: -5- INCLUYENDO PORTADA

COMENTARIOS:

OFICINA AUDITORIA INTERNA
SR. WILSON GALARZA
DIRECTOR
CPO. 80 - 16
NAGUABO, P.R. 00725
TEL. + FAX: 5-84226