

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE LAS PIEDRAS

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2003

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditor's Report	1-2
Required Supplemental Information (Part 1) Management's Discussion and Analysis	3-10
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Notes to basic financial statements	16-38
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplemental Information (Part II)	
Budgetary Comparison Schedule-General Fund	39
Notes to Budgetary Comparison Schedule-General Fund	40
Schedule of expenditures of federal awards	41-42
Notes to the schedule of expenditures of federal awards	43
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Independent auditors' report on compliance and on internal control over financial reporting based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i>	44-45

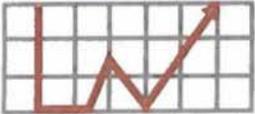
COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2003

CONTENTS - (CONTINUED)

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u>	
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	46-48
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	49-57
Summary schedule of prior year audit findings	58-61



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 AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Las Piedras**, Puerto Rico, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discuss in the following paragraphs, 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

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 basic financial statements. Accordingly, we do not express an opinion about the reporting entity structure.

As described in Note 12, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter with respect to the Capital Assets reported value in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the third and four paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Las Piedras**, as of June 30, 2003, and the changes in financial position, thereof for the year then ended.

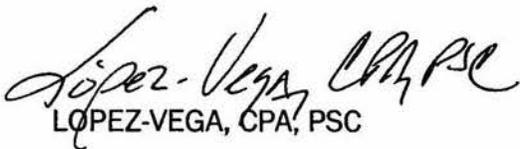
INDEPENDENT AUDITOR'S REPORT (Continued)

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects the financial position of each major fund and the aggregate remaining fund information of the **Municipality of Las Piedras**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on page 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2003 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 basic 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 respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 3, 2003

Stamp No. 1942311 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**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

Management's Discussion and Analysis

Management of the Municipality of Las Piedras (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget,) and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets decreased by \$ 2,438,395.
- In the fund financial statements, the governmental activities revenue decreased \$ 710,851 (or 5%) while governmental activities expenditures increased \$ 1,393,789 (or 8%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$ 185,427.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$682,996.
- The Municipality issued bonds amounting to \$810,000 to finance the capital projects.

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

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

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

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality commenced the reporting of infrastructure assets during the current year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$ 8,719,375 at the end of 2003, compared to \$11,157,770 at the end of the previous year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Net Assets (Continued)

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$ 7,610,085
Capital assets	<u>20,143,662</u>
Total assets	<u>27,753,747</u>
Current liabilities	5,513,487
Noncurrent liabilities	<u>13,520,885</u>
Total liabilities	<u>19,034,372</u>
Invested in capital assets, net of related debt	10,544,115
Restricted	6,135,914
Unrestricted (deficit)	<u>(7,960,654)</u>
Total net assets	<u>\$8,719,375</u>

Changes in Net Assets

The Municipality's net assets decreased by \$ 2,438,395. Approximately 60 percent of the Municipality's total revenue came from taxes, while 36 percent resulted from grants and contributions, including federal aid. Charges for Services provided less than 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, health and welfare, culture and recreation, public safety, community development, and economic development. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets (Continued)

Condensed Statement of Activities
June 30, 2003 -

Program revenues:	
Charges for services	\$ 53,743
Operating grants and contributions	1,429,432
Capital grants and contributions	574,094
General revenues:	
Property taxes	4,511,365
Municipal license tax	3,638,803
Grants and contributions not restricted to specific programs	3,276,514
Other local taxes	676,999
Interest and investment earnings	121,300
Miscellaneous	<u>203,597</u>
Total revenues	<u>14,485,847</u>
Expense:	
General government	5,535,152
Public safety	923,822
Public works	5,235,564
Culture and recreation	1,152,360
Health and welfare	2,096,654
Community development	849,871
Economic development	260,108
Urban development	107,383
Education	219,623
Interest on long-term debt	<u>543,705</u>
Total expenses	<u>16,924,242</u>
Change in net assets	(2,438,395)
Net assets, beginning of year	<u>11,157,770</u>
Net assets, end of year	<u>\$ 8,719,375</u>

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

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$2,096,598, a decrease of \$1,336,550 in comparison with the prior year. There are reservations of fund balance amounting to \$6,583,288. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$447,374), 2) to pay debt service (\$1,666,951), 3) to pay for capital projects (\$4,067,677) and 4) for other purposes (\$401,286).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a deficit of \$4,039,316.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$ 23,710,513, net of accumulated depreciation of \$ 3,566,851, leaving a net book value of \$ 20,143,662. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total decrease in the Municipality's investment in capital assets for the current fiscal year was \$ 643,433.63 in terms of net book value. Depreciation charges for the year totaled \$ 1,161,934.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$1,666,951 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,174,931
Cash with fiscal agent	4,330,815
Accounts receivable:	
Intergovernmental	1,104,339
Capital assets	
Land, improvements, and construction in progress	1,538,404
Other capital assets, net of depreciation	18,605,258
Total capital assets	<u>20,143,662</u>
Total assets	<u>27,753,747</u>
 Liabilities	
Accounts payable and accrued liabilities	1,249,113
Due to other governmental entities	26,391
Deferred revenues:	
Municipal license tax	3,940,903
Federal grant revenues	297,080
Other	
Noncurrent liabilities:	
Due within one year	854,489
Due in more than one year	<u>12,666,396</u>
Total liabilities	<u>19,034,372</u>
 Net Assets	
Invested in capital assets, net of related debt	10,544,115
Restricted for:	
Capital projects	4,067,677
Debt service	1,666,951
Other Puposos	401,286
Unrestricted (deficit)	<u>(7,960,654)</u>
Total net assets	<u>\$ 8,719,375</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 5,535,152	\$ -	\$ 105,181	\$ -	\$ (5,429,971)
Public safety	923,822	260	131,323		(792,239)
Public works	5,235,564	6,000	43,245	68,226	(5,118,093)
Health and welfare	2,096,654	2,649	789,541		(1,324,464)
Culture and recreation	1,152,360	44,834			(1,107,526)
Economic development	260,108		217,470		(42,638)
Community development	849,871		147,160	505,868	(196,843)
Urban development	107,383				(107,383)
Education	219,623		15,512		(204,111)
Interest on long-term debt	543,705				(543,705)
Total governmental activities	\$ 16,924,242	\$ 53,743	\$ 1,429,432	\$ 574,094	(14,866,973)
General revenues:					
Property taxes					4,511,365
Municipal license tax					3,638,803
Other Local Taxes					676,999
Grants and contributions not restricted to specific programs					3,276,514
Interest and investment earnings					121,300
Miscellaneous					203,597
Total general revenues					12,428,578
Change in net assets					(2,438,395)
Net assets - beginning					11,157,770
Net assets - ending					\$ 8,719,375

Commonwealth of Puerto Rico
Municipality of Las Piedras
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ -	\$ 1,555,314	\$ -	\$ 619,617	\$ 2,174,931
Cash with fiscal agent	11,634	2,475,766	1,666,951	176,464	4,330,815
Intergovernmental	810,649			293,690	1,104,339
Due from other funds	168,165	216,285			384,450
Total assets	\$ 990,448	\$ 4,247,365	\$ 1,666,951	\$ 1,089,771	\$ 7,994,535
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 846,185	\$ 179,594	\$ -	\$ 223,334	\$ 1,249,113
Due to other governmental entities	26,391				26,391
Due to other funds	216,285	94		168,071	384,450
Deferred revenues:					
Municipal license tax	3,940,903				3,940,903
Federal grant revenues				297,080	297,080
Total liabilities	5,029,764	179,688	-	688,485	5,897,937
Fund balances:					
Reserved for:					
Encumbrances	447,374				447,374
Capital projects		4,067,677			4,067,677
Debt service fund			1,666,951		1,666,951
Reserved reported in nonmajor funds:					
Other purposes				401,286	401,286
Unreserved:					
Undesigned	(4,486,690)				(4,486,690)
Total fund balances (deficit)	(4,039,315)	4,067,677	1,666,951	401,286	2,096,598
Total liabilities and fund balances	\$ 990,448	\$ 4,247,365	\$ 1,666,951	\$ 1,089,771	\$ 7,994,535

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,724,541.00	-	\$ 786,824	-	\$ 4,511,365.00
Municipal license taxes	3,638,803				3,638,803
Licenses, permits and other local taxes	682,999				682,999
Intergovernmental	3,381,695	226,350		404,887	4,012,932
Rent of property	44,834				44,834
Fines and forfeitures	260				260
Interest	121,300				121,300
Federal grants				1,246,908	1,246,908
Miscellaneous	199,592			26,854	226,446
Total revenues	11,794,024	226,350	786,824	1,678,649	14,485,847
Expenditures					
Current:					
General government	6,070,443	174		324	6,070,941
Public safety	838,142			85,680	923,822
Public works	4,091,701	152,256		348,173	4,592,130
Health and welfare	1,305,309	7,239		784,106	2,096,654
Culture and recreation	358,122	794,238			1,152,360
Economic development	33,358			226,750	260,108
Community development		354,967		494,904	849,871
Urban development		14,488		92,895	107,383
Education		204,111		15,512	219,623
Debt service:					
Principal			730,800		730,800
Interest			543,705		543,705
Total expenditures	12,697,075	1,527,473	1,274,505	2,048,344	17,547,397
Excess (deficiency) of revenues over (under) expenditures	(903,051)	(1,301,123)	(487,681)	(369,695)	(3,061,550)
Other financing sources (uses)					
Transfers in			47,376		47,376
Transfers out	(47,376)				(47,376)
Long-term debt issued	765,000	810,000		150,000	1,725,000
Total other financing sources (uses)	717,624	810,000	47,376	150,000	1,725,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(185,427)	(491,123)	(440,305)	(219,695)	(1,336,550)
Fund balance, beginning	(3,853,889)	4,558,800	2,107,256	620,981	3,433,148
Fund balance, ending	<u>\$ (4,039,316)</u>	<u>\$ 4,067,677</u>	<u>\$ 1,666,951</u>	<u>\$ 401,286</u>	<u>\$ 2,096,598</u>

Commonwealth of Puerto Rico
Municipality of Las Piedras
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ (1,336,550)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 518,500

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (1,161,934)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore , are not reported as expenditures in Governmental Funds. (424,733)

Some expenses reported in the Governmental Funds require the use of current financial resources and, therefore , are not reported as expenditures in Statement of Activities. 960,522

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (994,200)

Change in Net Assets of Governmental Activities **\$ (2,438,395)**

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Las Piedras (the Municipality) was founded on the year 1801. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 12.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

A. Component Units

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, The Financial Reporting Entity, of the GASB. 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 governmental 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 if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Capital Project Fund – State & Local Grants - is the accounting entity in which revenues derived from state and local funds or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or state statutes.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

Special Revenue Fund – Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

Capital Projects Funds – Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The municipality has the following reservations of fund balance:
 - a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
 - a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$253,442. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$211,315 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$20,143,662	
Deduct:		
Bonds Payable	(9,000,000)	
Notes Payable	(500,000)	
Obligations under capital lease agreements	<u>(99,547)</u>	\$10,544,115
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		4,067,677
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,666,951
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balance restricted for other purposes		401,286
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	(4,039,316)	
Deduct:		
Bonds and Notes	(1,136,700)	
Compensated absences debt	(1,371,980)	
Property tax debt - Treasury Department	(93,343)	
Property tax debt - CRIM Law 42	(925,130)	
Property tax debt - CRIM Law 146	(390,185)	
Claims and judgments debt	<u>(4,000)</u>	<u>(7,960,654)</u>
Total net assets - governmental activities		<u>\$ 8,719,375</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$1,555,314 and \$619,617 in the capital project fund – state and local grants, and in the other governmental funds respectively were fully collateralized at June 30, 2003.

The deposits at GDB of approximately \$11,634 in the general fund, the \$2,475,766 that is restricted principally for capital projects in the capital project fund – state and local grant, the \$1,666,951 in the debt service fund, and the \$176,464 that is restricted for other purposes in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax* - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivables- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and from the proceed of a lawsuit against the PREPA resolved during the fiscal year. Also, intergovernmental receivables in the general fund consist of the amounts due from the Commonwealth of Puerto Rico Municipal Revenue Collection Center ("CRIM") of the resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority (PREPA)	\$ 61,996
Puerto Rico Electric Power Authority (PREPA) - (Final settlement of law suit)	512,906
Municipal Revenue Collection Center (CRIM)	<u>235,747</u>
Total	<u>\$ 810,649</u>

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by the federal and local government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant - State's Program	\$226,029
Special Program for Aging - Title III	23,137
Title V - Delinquency Prevention Program	14,332
Department of Labor - Law 52	<u>30,192</u>
Total	<u>\$293,690</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – State and Local Grants	Reimbursable Expenditures	\$ 86,762
General Fund	Special Revenue Fund – Federal Grants	Reimbursable Expenditures	81,309
General Fund	Capital Project Fund – State and Local Grant	Reimbursable Expenditures	94
Capital Project Fund – State and Local Grant	General Fund	To finance General Fund Operations	<u>216,285</u>
Total			<u>\$384,450</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt Retirement	<u>\$47,376</u>
Total			<u>\$47,376</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$ 1,538,404			\$ 1,538,404
Total capital assets not being depreciated	<u>1,538,404</u>	<u>-</u>	<u>-</u>	<u>1,538,404</u>
Capital assets, being depreciated:				
Buildings	\$20,501,946			\$20,501,946
Equipment	677,738	218,880		896,618
Work of art	177,700			177,700
Vehicles	<u>296,225</u>	<u>299,620</u>	<u>-</u>	<u>595,845</u>
Total capital assets being depreciated	<u>\$21,653,609</u>	<u>\$ 518,500</u>	<u>-</u>	<u>\$22,172,109</u>
Less accumulated depreciation for:				
Buildings	(\$1,727,535)	(\$827,898)		(\$2,555,433)
Equipment	(392,913)	(179,326)		(572,239)
Work of art	(116,120)	(35,540)		(151,660)
Vehicles	<u>(168,349)</u>	<u>(119,170)</u>	<u>-</u>	<u>(287,519)</u>
Total accumulated depreciation	<u>(\$2,404,917)</u>	<u>(\$1,161,934)</u>	<u>-</u>	<u>(\$3,566,851)</u>
Total capital assets being depreciated, net	<u>\$19,248,692</u>	<u>(643,434)</u>	<u>-</u>	<u>\$18,605,258</u>
Governmental activities capital assets, net	<u>\$20,787,096</u>	<u>(\$ 643,434)</u>	<u>-</u>	<u>\$20,143,662</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

Public works	<u>\$1,161,934</u>
Total depreciation expense-governmental activities	<u>\$1,161,934</u>

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$93,344 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$13,335
2005	13,335
2006	13,335
2007	13,335
2008	13,335
Thereafter	<u>26,669</u>
Total	<u>\$93,344</u>

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net assets includes an outstanding debt balance of \$925,130 and \$390,185 related to Law 42 and Law 146 respectively.

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$3,940,903 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

B. Federal Government- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Vouchers	\$227,317
Child Care and Development Block Grant	30,435
Community Development Block Grant - State's Program	12,403
Federal Transit - Capital Improvement	10,560
Housing Opportunities for Persons with Aids	3,652
Emergency Management Performance Grants	3,133
Community Service Block Grant	1,107
Local Law Enforcement Block Grant	801
Others	<u>7,672</u>
Total	<u>\$297,080</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 9,192,500	\$1,575,000	\$ 630,800	\$10,136,700	\$475,800
Notes Payable	450,000	150,000	100,000	500,000	125,000
Property Tax - Treasury Department	106,678		13,335	93,343	13,334
Property Tax - CRIM Law 146	390,185			390,185	
Property Tax - CRIM Law 42	998,942		73,812	925,130	73,808
Unemployment Tax - Department of Labor	170,292		170,292	-	
Obligations Under Capital Leases	121,619		22,073	99,546	99,546
Compensated Absences	1,014,265	420,733	63,018	1,371,980	63,000
Claims and judgments	34,914	4,000	34,914	4,000	4,000
Accounts Payable to Suppliers	<u>583,078</u>		<u>583,078</u>		
Total	<u>\$13,062,473</u>	<u>\$2,149,733</u>	<u>\$1,691,322</u>	<u>\$13,520,884</u>	<u>\$854,489</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$765,000. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1990 Series	10-1-2008	\$ 216,000	8.00 %	\$ 56,700
1991 Series	7-1-2006	785,000	3.26% to 6.36%	315,000
1994 Series	7-1-2008	1,045,000	6.10% to 7.60%	585,000
1996 Series	7-1-2014	5,025,000	4.70% to 8.00%	3,980,000
1999 Series	7-1-2023	3,040,000	0.00% to 7.81%	2,830,000
2002 Series	7-1-2025	490,000	5.00% to 6.75%	480,000
2003 Series	7-1-2027	765,000	5.00% to 6.50%	765,000
2003 Series	7-1-2027	810,000	5.00% to 6.50%	810,000
1997 Series	1-1-2013	400,000	5.00% to 8.00%	<u>315,000</u>
Total general obligation bonds				<u>\$10,136,700</u>

These bonds, except the 1990 Series bond and the 1997 Series bond, are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 475,800	\$ 566,123
2005	505,800	559,088
2006	555,800	528,134
2007	595,800	493,728
2008	550,800	459,141
2009-2013	2,852,700	1,787,067
2014-2018	2,165,000	944,555
2019-2023	1,545,000	505,003
2024-2028	<u>890,000</u>	<u>107,543</u>
Total	<u>\$10,136,700</u>	<u>\$5,950,382</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

- 3. Notes Payable** - The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2003</u>
1999 Series	7-1-2004	\$275,000	5.00% to 7.81%	\$ 65,000
2002 Series	7-1-2008	325,000	2.70% to 5.00%	285,000
2003 Series	7-1-2008	150,000	5.00% to 6.50%	<u>150,000</u>
Total notes payable				<u>\$500,000</u>

The notes are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$125,000	\$ 17,722
2005	70,000	15,077
2006	70,000	12,172
2007	75,000	9,094
2008	75,000	5,781
2009-2013	<u>85,000</u>	<u>2,042</u>
Total	<u>\$500,000</u>	<u>\$61,888</u>

- 4. Property Tax Debt** - These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections.
- 5. Obligations Under Capital Leases** - The Municipality has entered under certain leases agreements qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activites</u>
2004	<u>\$121,620</u>
Total minimum lease payments	121,620
Less amount representing interest	<u>(22,073)</u>
Present value of minimum lease payments	<u>\$ 99,547</u>

6. **Compensated absences-** The government-wide statement of net assets includes \$705,014 of accrued sick leave benefits, and \$666,966 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

9. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$307,839 and \$345,040, respectively.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other 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 approximately \$4,000 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

12. CAPITAL ASSETS REPORTED VALUE:

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported value in governmental activities and, accordingly, The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

13. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$40,770 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the reclassification of beginning cash balances, the recognition of interfund transactions pending at year end, and the elimination of liabilities (deposits and bonds).

14. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On October 6, 2003 the Municipality of Las Piedras issued a general obligation bond in the amount of \$1,030,000 for capital outlays. The interest rate of this debt is variable. Repayment of the bond is scheduled for 25 years.

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

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$3,362,445	\$3,605,761	\$3,574,719	\$(31,042)
Municipal license tax	3,474,496	3,722,812	3,648,728	(74,084)
Licenses, permits and other local taxes	705,400	706,400	683,000	(23,400)
Charges for service	500	500		(500)
Intergovernmental	2,837,056	2,842,237	2,868,789	26,552
Rent of property	25,000	44,474	44,834	360
Fines and forfeitures	4,000	4,000	260	(3,740)
Interest	60,000	137,261	133,855	(3,406)
Miscellaneous	<u>90,000</u>	<u>289,648</u>	<u>199,592</u>	<u>(90,056)</u>
Total revenues	<u>10,558,897</u>	<u>11,353,093</u>	<u>11,153,777</u>	<u>(199,316)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	5,263,566	5,529,948	5,903,081	(373,133)
Public safety	966,364	836,568	835,780	788
Public works	2,575,413	3,228,241	3,343,267	(115,026)
Health and welfare	1,234,366	1,322,192	1,318,772	3,420
Culture and recreation	400,554	355,348	355,138	210
Economic development	61,358	33,420	33,358	62
Operating transfer to other fund	<u>57,276</u>	<u>47,376</u>	<u>47,376</u>	
Total expenditures, encumbrances and other financing uses	<u>10,558,897</u>	<u>11,353,093</u>	<u>11,836,772</u>	<u>(483,679)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(682,995)</u>	<u>(682,995)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$11,153,777
Differences-budget to GAAP:				
Reversal of prior year accounts receivable				(108,405)
Recognition of current year accounts receivable				<u>748,652</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$11,794,024</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$11,836,772
Differences-budget to GAAP:				
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose.				(47,376)
Expenditures paid with the proceed of the long-term debt of \$765,000				755,366
Recognition of accounts payable to Governmental Entities				70,403
Nonbudgeted expenditures				3,373
Prior year encumbrances recorded as current year expenditures for GAAP basis				415,893
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(337,356)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$12,697,075</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2002

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

<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		\$ 28,806
Total U.S. Department of Agriculture			<u>28,806</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		453,987
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - State's Program	14.228	02-AB,FC,FE-55 01-FD-55 00-FD-55 99-FD-55 98-FD-55 95-FD-55	494,904
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	<u>30,434</u>
Total U.S. Department of Housing and Urban Development			<u>979,325</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2003

<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. DEPARTEMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office):			
Title V - Delinquency Prevention Program	16.548	00-JP-FX-0072 01-JP-FX-0072	14,187
Pass-through the Commonwealth of Puerto Rico - Local Department of Justice:			
Local Law Enforcement Block Grants Program	16.592	Not Available	<u>64,175</u>
Total U.S. Department of Justice			<u>78,362</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office):			
Special Program for Aging - Title III, Part B - Grant for Supporting Services and Senior Centers	93.044	Not Available	113,455
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Service Block Grant	93.569	Not Available	28,925
Child Care and Development Block Grant	93.575	Not Available	<u>18,035</u>
Total U.S. Department of Health and Human Services			<u>160,415</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,246,908</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, 2003

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 fund 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 Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Other Governmental Funds
Per Schedule of Expenditures of Federal Awards	\$ 1,246,908
Non federal programs expenditures	<u>801,436</u>
Total expenditures in the general purpose financial Statements	<u>\$ 2,048,344</u>



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 AUDITOR'S 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 Legislature
Municipality of Las Piedras
Las Piedras, Puerto Rico**

We have audited the basic financial statements of the **Municipality of Las Piedras** as of and for the year ended June 30, 2003, and have issued our report thereon dated December 3, 2003, which was unqualified at the fund financial statements level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities. Also, 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; therefore, such discrete component unit was not included on the accompanying basic 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** basic 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 basic 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*.

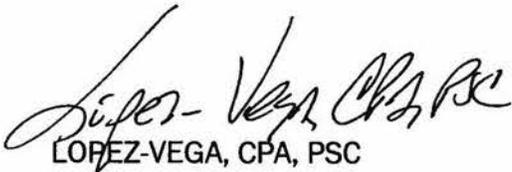
Internal Control Over Financial Reporting

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 basic 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 basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-01 through 03-03.

INDEPENDENT AUDITOR'S 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 03-01 and 03-02 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 December 3, 2003.

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
December 3, 2003

Stamp No. 1942312 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

Member of:

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

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

To the Honorable Mayor
and the Municipal Legislature
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, 2003. The Municipality of Las Piedras's major federal programs are 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, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, 03-04 through 03-06.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(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 **03-04** through **03-06**.

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 **03-04** through **03-06**, 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 March 9, 2004.



INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(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
March 9, 2004

Stamp No. 1942313 of the Puerto Rico
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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, 2003

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified, except for adverse for government-wide financial statements	
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

<u>Type of auditors’ report issued on compliance for major programs:</u>	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No
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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
14.871	Section 8 Housing Choice Voucher

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, 2003

Section II – Financial Statements Findings

Finding Reference	03-01
Requirement	Fixed\Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	The Municipality has not maintained a complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.
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, 2003

Section II – Financial Statements Findings

Finding Reference	03-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	The Municipality did not include in the basic 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 the basic 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 basic 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, 2003

Section II – Financial Statements Findings

Finding Reference	03-03
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).
Criteria	Chapter VIII, 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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-04
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Quality Standards Inspections
Statement of Condition	During our test we noted that the PHA did not perform an adequate number of Quality Control re-inspections during the fiscal year 2002-2003. In that fiscal year the PHA prepares eight (8) Quality Control re-inspection but on five (5) of those inspections the program's director re-inspect his own inspections.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 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 supervisory quality control re-inspections to determine if the work documented in the files conform to program requirements.</p> <p>Code of Federal Regulations 24, Subpart A, 985.2 and the Housing Choice Voucher Guidebook, number 7420.10G, Chapter ten (10), include a guide to determine the minimum size of the PHA's quality control sample.</p>
Cause of Condition	During part of the fiscal year 2002-2003 the program did not have a Housing Quality Standards inspector. During that period the program's director realized the Housing Quality Standards inspections and realized Quality Control re-inspections over his own inspections.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sections 982.405 (b) and 985.2 and with the Housing Choice Voucher Guidebook, number 7420.10G, Chapter ten (10).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-04 (continued)

Recommendation We recommended the PHA to assure that a Housing Quality Standard inspectors will be assigned to that function during the entire fiscal year. Also, the PHA must assure to select and perform at least a minimum sample size of Quality Control re-inspection during the fiscal year as required by the federal regulations.

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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-05
Program	Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	<p>We performed a Cash Management test and examined ten (10) cash advance requested by the Municipality during the fiscal year 2002-2003. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. For seven (7) advances we noted that the Municipality paid the projects before receiving the requested funds. This represents that the Municipality used funds from other projects to pay those amounts. The Municipality maintains an average cash balance of \$13,922 during the fiscal year 2002-2003.b. For three (3) requisitions we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (c), requires a cash management system in order to minimize the time elapsing between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality's controls and procedures failed to assure that the funds received was used only to pay for the purpose it were requested. Also, the cash management controls failed to assure that advances were requested only for realistic cash needs.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Sec. 570.489 (c).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-05 (continued)

Recommendation We recommend that management should strengthen its procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality. Also, we recommend that management should strength its controls and procedures to assure that the advances were only used for the purpose it was requested.

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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs
Requirement	Equipment and Real Property Management
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 03-01

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-04	14.228	<p><u>The Municipality should implement the procedures designed by the federal and local agencies in order to assure that all assistance files contain all documents required by federal and local agencies and to assure that the housing rehabilitations assistance was used only for applicable participants and only for housing rehabilitation activities.</u></p> <p>No longer valid. During the programs year 2002-2003 and 2003-2004 no funds were approved by the pass-through agency for housing rehabilitation activities.</p>
02-05	14.228	<p><u>The Municipality 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. Also, the Municipality should strength its accounting procedures in order to assure a clear trace of transactions to the accounting records.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-05.</p>
02-06	14.228	<p><u>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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.</p>
02-07	14.228	<p><u>The Municipality should update contract model according with the federal requirements.</u></p> <p>Full corrective action has been taken.</p>
02-08	14.871	<p><u>The Program should establish monitoring procedures to assure that the participant's files include all documentation required by federal agencies.</u></p> <p>Full corrective action has been taken.</p>
02-09	14.871	<p><u>The Municipality should improve monitoring procedures to assure that quality control re-inspections are properly documented in the participant</u></p>

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<u>files and to assure that the exceptions detailed in the inspection reports are duly corrected by the owner or the participant in the required period.</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-04.
01-05	14.228	<u>Failures related to housing rehabilitation participant files</u> No longer valid. During the programs year 2002-2003 and 2003-2004 no funds were approved by the pass-through agency for housing rehabilitation activities.
01-06	14.228 14.855 14.857	<u>Cash in excess of immediate needs</u> Partial corrective action has been taken. Related with the Section 8 program the Municipality improved its cash management procedures. Related with the CDBG program the Municipality will reinforce its disbursement internal control procedures in order to reduce the time elapsed between receipt and use of CDBG Program funds. Also, the Municipality should strength its accounting procedures in order to permit a clear trace between the federal funds received and the disbursement of those funds.
01-07	14.228	<u>Inadequate Property Records and Reports</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.
01-08	14.228	<u>Failures related with contract provisions and clauses</u> Full corrective action has been taken.
01-09	14.855 14.857	<u>Failures in the participants files related with the supporting evidence and with HUD-approved release and consent forms submitted by the family</u> Full corrective action has been taken.
01-11	14.855 14.857	<u>Failures with the documentation of the Housing Quality Control Inspections and with the performance of Quality Control Re-inspections</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-04.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-12	14.855 14.857	<u>Failures in the supporting documents related with the Municipality follow up procedures of the deficiencies noted as part of the Housing Quality Control Inspections</u> Full corrective action has been taken.
00-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 auditors reissued the finding for the current year. Finding Reference 03-05.
00-III-02	14.855	<u>Participant files do not have evidence of HUD-approved release and consent forms submitted by the family.</u> Full corrective action has been taken.
00-III-03	14.228	<u>Federal Program Department does not have a property register.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.
00-III-04	14.228	<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> Full corrective action has been taken.
00-III-05	14.855	<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> Full corrective action has been taken.
00-III-06	14.855 14.857	<u>Participant's files do not have a unit inspection report.</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 auditors reissued the finding for the current year. Finding Reference 03-05.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
99-III-03	14.228	<u>Federal Program Department does not have a property register.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.
98-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 auditors reissued the finding for the current year. Finding Reference 03-05..
98-III-02	14.228	<u>Federal Program Department does not have a property register.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.