

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

MUNICIPIO DE LAS PIEDRAS
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Comptroller - 9456

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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• American Institute of
Certified Public Accountants

• Puerto Rico Society of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**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, 2004, 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 paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

As described in Notes 5 and 13, 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 paragraph, 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, Puerto Rico**, as of June 30, 2004, and the changes in financial position, thereof for the year then ended.

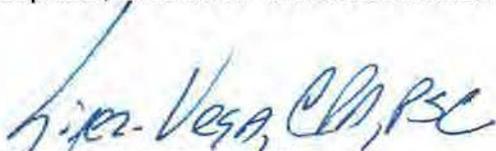
INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, in our opinion, except for the effect of the third paragraph, 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, Puerto Rico** as of June 30, 2004, 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 13 and the Budgetary Comparison Schedule-General Fund on page 42 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 7, 2004 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 7, 2004

Stamp No. 2019457 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'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

This discussion and analysis of the Municipality of Las Piedras (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2004. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2003, first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments.*" This MD & A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2004 deserve special mention:

1. Total assets of the Municipality amounted to \$26,680,457 which represents a decrease of 4% compared to prior fiscal year;
2. At the end of fiscal year 2004, total liabilities amounted to \$20,270,698. Out of said amount, \$14,760,268 corresponded to long-term liabilities of which \$11,845,900 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues;
3. Total net assets of the Municipality amounted to \$6,409,759 which represents a decrease of 26% compared to prior fiscal year;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$16,916,692, derived from the following sources: \$77,324 charges for services; \$2,444,129 from operating grants and contributions; \$288,424 from capital grants and contributions obtained from other sources, and \$14,106,815 from general revenues available;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$19,351,873;
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Assets figure by \$2,435,181;
7. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$1,146,697;
8. As the end of the current fiscal year the Municipality's General Fund deficit amounted to \$4,817,075, compared to a fund deficit of \$4,039,316 in the prior fiscal year;
9. The actual General Fund budgetary activities resulted in an unfavorable balance of \$813,250.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2004. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Las Piedras constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of The Statements of Activities of the Municipality at June 30, 2004, shows total expenses incurred to afford the cost of all functions and programs amounted to \$19,351,873. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$2,809,877 was derived from the following sources: \$77,324 charges for services; \$2,444,129 from operating grants and contributions; and \$288,424 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$14,106,815. When such figure is added to the \$2,809,877 previously mentioned, total revenues available for the financing of activities amounted to \$16,916,692. There was an excess of expenses over revenues in the amount of \$2,435,181 which contributed with a decrease to the figure of net assets attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. The Municipality expects to retroactively report historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

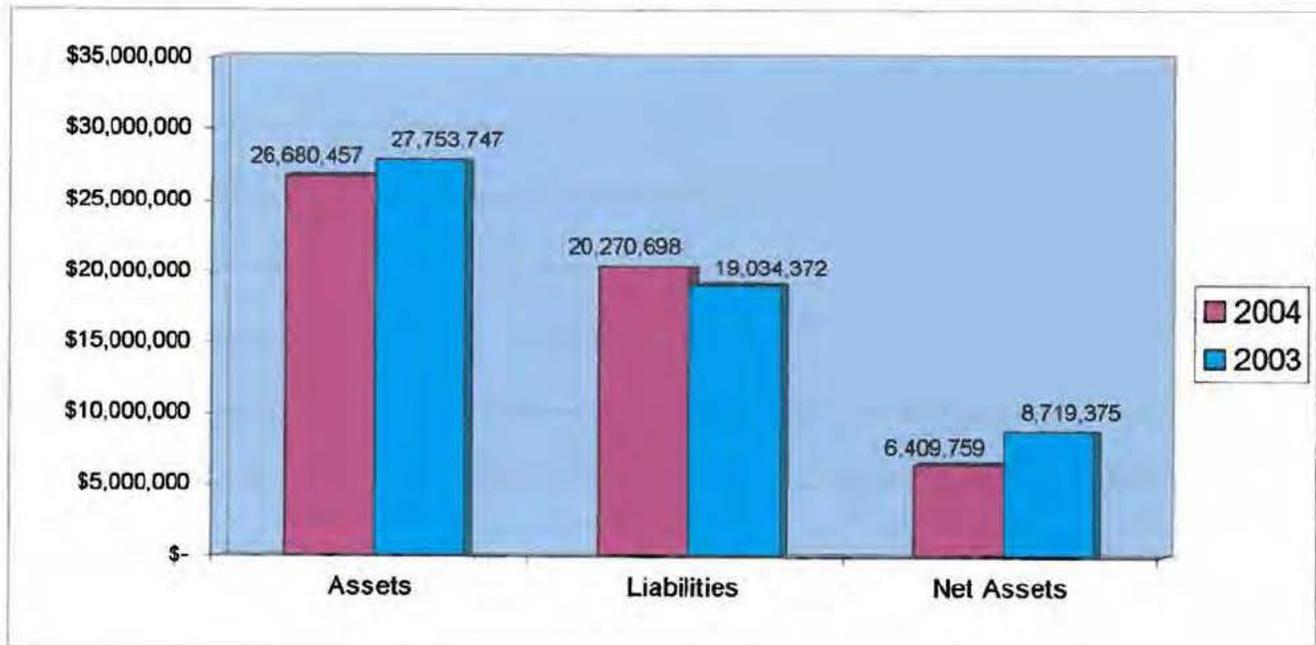
YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Las Piedras, primary government total assets exceeded liabilities by \$6,409,759 at the end of 2004, compared to \$8,719,375 at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

Condensed Statement of Net Assets	2004	2003	Change	%
Current and other assets	\$ 6,536,795	\$ 7,610,085	\$(1,073,290)	(14%)
Capital assets	20,143,662	20,143,662	-	-
Total assets	26,680,457	27,753,747	(1,073,290)	(4%)
Current and other liabilities	5,510,430	5,513,487	(3,057)	-
Long-term liabilities	14,760,268	13,520,885	1,239,383	9%
Total liabilities	20,270,698	19,034,372	1,236,326	6%
Invested in capital assets, net of related debt	10,108,793	10,544,115	(435,322)	(4%)
Restricted	5,672,796	6,135,914	(463,118)	(8%)
Unrestricted deficit	(9,371,830)	(7,960,654)	(1,411,176)	18%
Total net assets	\$ 6,409,759	\$ 8,719,375	\$(2,309,616)	(26%)



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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2004, the net effect of revenues derived from several programs plus current operating revenues compared to the total expenses, amounted to \$2,435,181 decrease in the Municipality's net assets. Approximately 64 percent of the Municipality's total revenue came from taxes, while 33 percent resulted from grants and contributions, including federal aid. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, health and welfare services, culture and recreation, and community development. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

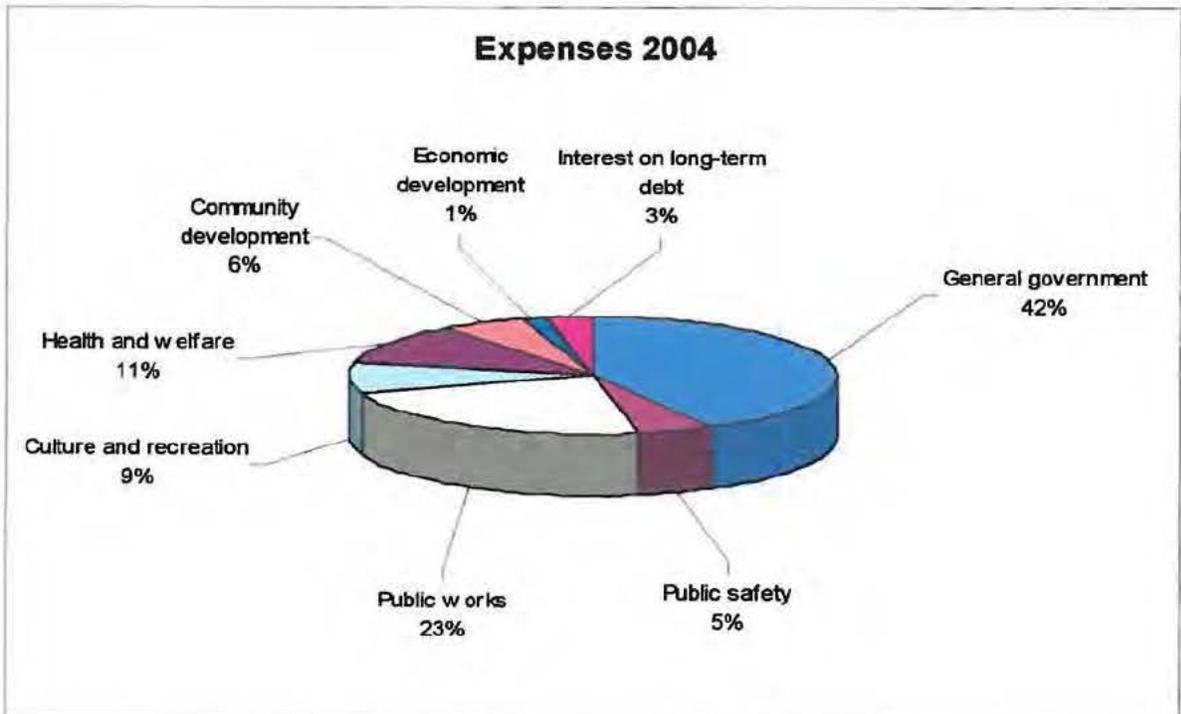
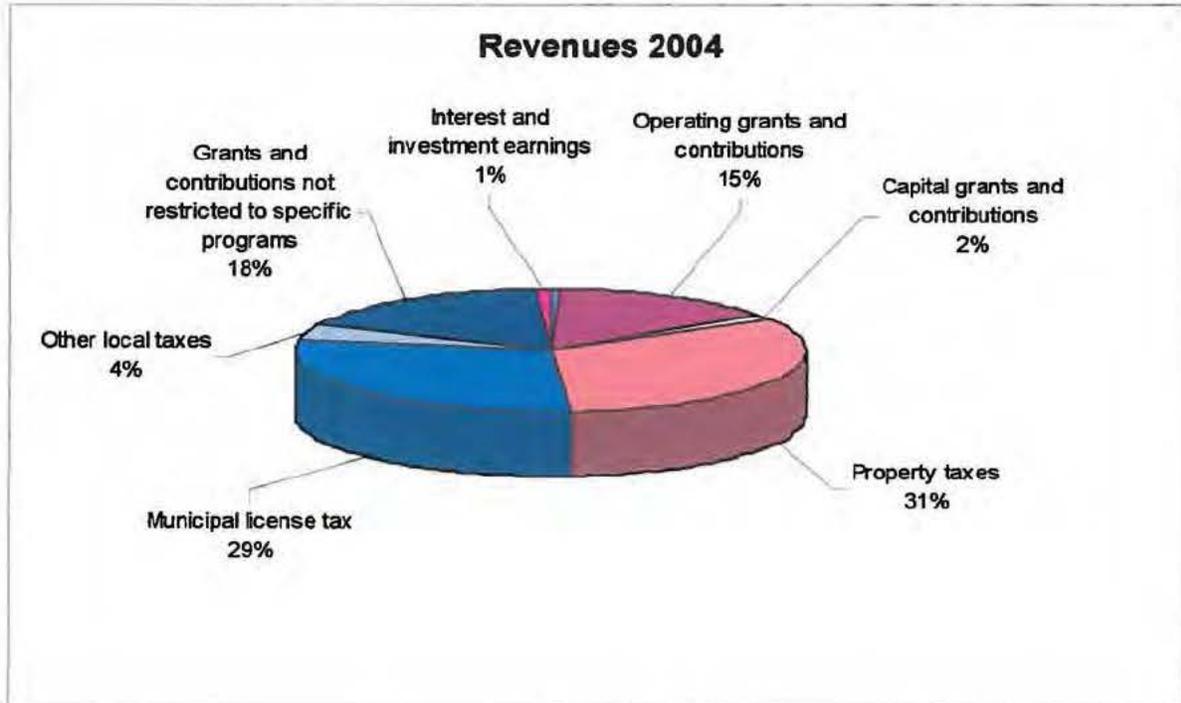
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$ 77,324	\$ 53,743	\$ 23,581	44%
Operating grants and contributions	2,444,129	1,429,432	1,014,697	71%
Capital grants and contributions	288,424	574,094	(285,670)	(50%)
General revenues:				
Property taxes	5,351,961	4,511,365	840,596	19%
Municipal license tax	4,853,764	3,638,803	1,214,961	33%
Other local taxes	705,615	676,999	28,616	4%
Grants and contributions not restricted to specific programs	2,958,785	3,276,514	(317,729)	(10%)
Interest and investment earnings	123,582	121,300	2,282	2%
Miscellaneous	113,108	203,597	(90,489)	(44%)
Total revenues	16,916,692	14,485,847	2,430,845	17%
Expenses:				
General government	8,129,439	5,535,152	2,594,287	47%
Public safety	980,395	923,822	56,573	6%
Public works	4,379,388	5,235,564	(856,176)	(16%)
Culture and recreation	1,678,019	1,152,360	525,659	46%
Health and welfare	2,198,933	2,096,654	102,279	5%
Community development	1,072,430	849,871	222,559	26%
Economic development	272,701	260,108	12,593	5%
Education	3,500	219,623	(216,123)	(98%)
Urban development	64,350	107,383	(43,033)	(40%)
Interest on long-term debt	572,718	543,705	29,013	5%
Total expenses	19,351,873	16,924,242	2,427,631	14%
Change in net assets	(2,435,181)	(2,438,395)	3,214	-
Net assets, beginning of year, as restated	8,844,940	11,157,770	(2,312,830)	(21%)
Net assets, end of year	\$ 6,409,759	\$ 8,719,375	\$ (2,309,616)	(26%)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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 \$1,146,697, a decrease of \$949,901 in comparison with the prior year. There are reservations of fund balance amounting to \$6,530,877. 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 (\$567,105), 2) to pay debt service (\$2,242,209), 3) to pay for capital projects (\$3,304,873) and 4) for other purposes (\$416,690).

Within the governmental funds, it is included the General Fund which is the chief operating fund of the Municipality. As of June 30, 2004, the General Fund has an undesignated fund deficit of \$5,384,180.

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.

The actual General Fund budgetary activities resulted in an unfavorable balance of \$813,250.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality has not maintained complete and adequate records related to the Capital Assets acquired and constructed in the past years, but the Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets, and then, comply with such requirement. The Municipal Administration expects to develop a broad and comprehensive identification and assessments project of all fixed assets owned by the local government in order to capitalize them in its Statement of Net Assets, and then, reflects the correct net assets figure of the Municipality as a whole.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$23,710,513, net of accumulated depreciation of \$3,566,851 (do not includes depreciation charges for the year), leaving a net book value of \$20,143,662. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure and vehicles. 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 Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes 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, 2004, the Municipality has \$1,824,771 of unexpended proceeds mainly from bond and notes 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.

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").

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State 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 fiscal year 2004-2005.

FINAL COMMENTS

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

On July 23, 2004, the First Instance Court passed judgment about a demand settled by the Municipality against the "Corporación para el Desarrollo y Fomento Economico de Las Piedras, C.D.", a discretely presented component unit of the Primary Government. In such demand, the Municipality requests to the Court the nomination of a trustee to the Corporation, in addition to other related remedies. On said date, the First Instance Court passed judgment ordering the following: (a) the dissolution of the Corporation created under the dispositions of the Municipal Autonomous Act approved in August 1991; (b) reverting the corporation status to a not for profit corporation under the dispositions of the General Corporations Act; (c) and ordering the Corporation to pay promptly the \$75,000 owned to the Municipality.

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. In addition to the new formula established for the calculation of the contribution in lieu of taxes as described in Note 1 (E) (2), applicable on fiscal year 2002-2003 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates corresponding to the contribution in lieu of taxes for the current fiscal year.

On November 3, 2004 the Municipality of Las Piedras issued a general obligation bond in the amount of \$830,000. The bond proceed was used for municipal road improvement, and for the cancellation of another two bonds outstanding; \$400,000 Bond, 1996 Series, and \$216,000 Bond, 1990 Series. The interest rate of this debt is 5%. The repayment of the bond is scheduled for 14 years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINAL COMMENTS (CONTINUED)

On November 3, 2004 the Municipality of Las Piedras issued a general obligation bond in the amount of \$555,000. The bond proceed was used for cash flow needs in the operational fund. The interest rate of this debt is 5%. The repayment of the bond is scheduled for 10 years.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2004. It further contemplates to improve its current figure of net assets, which has been identified as one of the main short and long-term objectives of the Municipality.

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 at P.O. Box 68, Las Piedras, Puerto Rico 00771-0068, or call (787) 733-2160.

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,399,914
Cash with fiscal agent	4,020,541
Accounts receivable:	
Municipal license tax	108,678
Intergovernmental	924,750
Interest	7,912
Others	75,000
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>26,680,457</u>
 Liabilities	
Accounts payable and accrued liabilities	1,402,210
Due to other governmental entities	119,561
Deferred revenues:	
Municipal license tax	3,489,247
Federal grant revenues	208,436
Other	
Interest Payable	290,976
Noncurrent liabilities:	
Due within one year	889,650
Due in more than one year	<u>13,870,618</u>
 Total liabilities	 <u>20,270,698</u>
 Net Assets	
Invested in capital assets, net of related debt	10,108,793
Restricted for:	
Capital projects	3,304,873
Debt service	1,951,233
Other Puposos	416,690
Unrestricted (deficit)	<u>(9,371,830)</u>
 Total net assets	 <u>\$ 6,409,759</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, 2004

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	\$ 8,129,439	\$ 3,292	\$ 187,335		\$ (7,938,812)
Public safety	980,395	2,425	144,671		(833,299)
Public works	4,379,388	14,066		288,424	(4,076,898)
Health and welfare	2,198,933	10,060	747,435		(1,441,438)
Culture and recreation	1,678,019	4,203	58,304		(1,615,512)
Economic development	272,701	34,245	286,625		48,169
Community development	1,072,430		1,017,759		(54,671)
Urban development	64,350				(64,350)
Education	3,500	9,033	2,000		7,533
Interest on long-term debt	572,718				(572,718)
Total governmental activities	\$ 19,351,873	\$ 77,324	\$ 2,444,129	\$ 288,424	(16,541,996)
General revenues:					
Property taxes					5,351,961
Municipal license tax					4,853,764
Other Local Taxes					705,615
Grants and contributions not restricted to specific programs					2,958,785
Interest and investment earnings					123,582
Miscellaneous					113,108
Total general revenues					14,106,815
Change in net assets					(2,435,181)
Net assets - beginning, as restated					8,844,940
Net assets - ending					\$ 6,409,759

Commonwealth of Puerto Rico
Municipality of Las Piedras
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>Capital Projects Fund - State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ -	\$ 1,068,484	\$ -	\$ 331,430	\$ 1,399,914
Cash with fiscal agent	45,867	1,824,771	1,973,840	176,063	4,020,541
Municipal license tax receivable	13,034				13,034
Intergovernmental receivable	265,212		270,710	388,828	924,750
Interest receivable	6,663		1,249		7,912
Due from other funds	390,164	621,606		158,900	1,170,670
Total assets	<u>\$ 720,940</u>	<u>\$ 3,514,861</u>	<u>\$ 2,245,799</u>	<u>\$ 1,055,221</u>	<u>\$ 7,536,821</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable and accrued liabilities	\$ 1,164,121	\$ 39,421	\$ -	\$ 198,668	\$ 1,402,210
Due to other governmental entities	104,141			15,420	119,561
Due to other funds	780,506	170,567	3,590	216,007	1,170,670
Deferred revenues:					
Municipal license tax	3,489,247				3,489,247
Federal grant revenues				208,436	208,436
Total liabilities	<u>5,538,015</u>	<u>209,988</u>	<u>3,590</u>	<u>638,531</u>	<u>6,390,124</u>
Fund balances:					
Reserved for:					
Encumbrances	567,105				567,105
Capital projects		3,304,873			3,304,873
Debt service fund			2,242,209		2,242,209
Reserved reported in nonmajor funds:					
Other purposes				416,690	416,690
Unreserved:					
Undesigned	(5,384,180)				(5,384,180)
Total fund balances (deficit)	<u>(4,817,075)</u>	<u>3,304,873</u>	<u>2,242,209</u>	<u>416,690</u>	<u>1,146,697</u>
Total liabilities and fund balances	<u>\$ 720,940</u>	<u>\$ 3,514,861</u>	<u>\$ 2,245,799</u>	<u>\$ 1,055,221</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,143,662
Accrual basis of accounting accounts receivable used in governmental activities are not financial resources and, therefore, are not reported in the funds	170,644
Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds	<u>(15,051,244)</u>
Net assets of governmental activities	<u>\$ 6,409,759</u>

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, 2004

	General Fund	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,962,958		\$ 1,389,003		\$ 5,351,961
Municipal license taxes	4,758,120				4,758,120
Licenses, permits and other local taxes	707,734				707,734
Charge for Services	10,457				10,457
Intergovernmental	3,146,120	\$ 288,424		\$ 483,822	3,918,366
Rent of property	39,440				39,440
Fines and forfeitures	2,425				2,425
Interest	123,582				123,582
Federal grants				1,752,386	1,752,386
Miscellaneous	125,901			30,676	156,577
Total revenues	12,876,737	288,424	1,389,003	2,266,884	16,821,048
Expenditures					
Current:					
General government	7,941,914	119,628		400	8,061,942
Public safety	799,927			180,468	980,395
Public works	3,904,675	503,854		536	4,409,065
Health and welfare	1,460,720	360		737,853	2,198,933
Culture and recreation	301,391	1,326,865		49,763	1,678,019
Economic development				272,701	272,701
Community development		64,671		1,007,759	1,072,430
Urban development		64,350		-	64,350
Education				3,500	3,500
Debt service:					
Principal			800,800	-	800,800
Interest			572,718	-	572,718
Total expenditures	14,408,627	2,079,728	1,173,518	2,252,980	19,914,853
Excess (deficiency) of revenues over (under) expenditures	(1,531,890)	(1,791,304)	215,485	13,904	(3,093,805)
Other financing sources (uses)					
Transfers in	16,185		45,762	1,500	63,447
Transfers out	(45,762)	(1,500)	(16,185)	-	(63,447)
Long-term debt issued	780,000	1,030,000		-	1,810,000
Total other financing sources (uses)	750,423	1,028,500	29,577	1,500	(1,283,805)
Net change in fund balance (deficit)	(781,467)	(762,804)	245,062	15,404	(1,283,805)
Fund balance, beginning	(4,035,608)	4,067,677	1,997,147	401,286	2,430,502
Fund balance, ending	<u>\$ (4,817,075)</u>	<u>\$ 3,304,873</u>	<u>\$ 2,242,209</u>	<u>\$ 416,690</u>	<u>\$ 1,146,697</u>

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

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, 2004

Net Change in Fund Balances - Total Governmental Funds **\$ (1,283,805)**

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

Municipal license tax reported in the Government-Wide Statement of Activities as revenues do not provide current financial resources in Governmental Funds. The following amount represents the change in accounts receivable.	95,644
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year.	(7,637)
Bonds and notes proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.	(1,209,200)
Repayment of obligations under capital leases is an expenditure in Governmental Funds, but the repayment reduces capital lease debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	29,677
Repayment of long term unemployment tax debt is an expenditure in Governmental Funds, but the repayment reduces long -term unemployment tax debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	13,335
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	76,277
Long-term compensated absences are 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, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represented the change in long-term compensated absences from prior year.	(153,472)
Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represented the change in long-term claims and judgments from prior year.	4,000
Change in Net Assets of Governmental Activities	\$ (2,435,181)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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 a full range of services for its citizens. These services include 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.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2003. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality has elected to delay the capitalization of infrastructure.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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, as amended by GASB Statement No. 39. 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, 2004

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 Projects Fund - State and 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 and notes 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, 2004

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.

Special Revenue Fund – Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

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

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, 2004

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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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 represents mostly contributions from the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on the preliminary liquidation made by the PREPA. Such liquidation is subject to final results of the PREPA financial statements audit. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state 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, 2004

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, 2004

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, 2004

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, 2004 amounted to approximately \$211,709. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$188,536 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</u> <u>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	(9,590,000)	
Notes Payable	(375,000)	
Obligations under capital lease agreements	<u>(69,869)</u>	\$ 10,108,793
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		3,304,873
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	2,242,209	
Deduct:		
Interest Payable	<u>(290,976)</u>	1,951,233
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balance restricted for other purposes		416,690
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund deficit:	(4,742,075)	
Add:		
Accrual Basis Account Receivables	95,644	
Deduct:		
Bonds and Notes	(1,880,900)	
Compensated absences debt	(1,525,452)	
Advance property tax debt	<u>(1,319,047)</u>	<u>(9,371,830)</u>
Total net assets - governmental activities		<u>\$ 6,409,759</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 \$1,068,484 in the capital project fund – state and local grants, and the \$331,430 in the other governmental funds were fully collateralized at June 30, 2004.

The deposits at GDB of approximately \$45,867 in the general fund, the \$1,824,771 that is restricted principally for capital projects in the capital project fund – state and local grants, the \$1,973,840 in the debt service fund, and the \$176,063 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, 2004, 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, 2004, 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, 2004

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 over actual cost of electric power consumed by the Municipality during the current fiscal year, the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from property tax collections related to the amnesty granted through the Public Law 74, enacted on March 1, 2004, and the amounts due from the CRIM 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)	\$ 114,610
Municipal Revenue Collection Center (CRIM)	111,907
Municipal Revenue Collection Center (CRIM)	<u>38,695</u>
Total	<u>\$ 265,212</u>

On September 7, 2004, Act Num. 255 was enacted and a new formula as described in Note 1 (E) (2), was established for the calculation of the contribution in lieu of taxes to be paid to the municipalities by PREPA. Since the final liquidation following such formula was not available for fiscal year 2003-2004, the PREPA issued a preliminary liquidation, which could be affected by final results of the PREPA financial statements audit.

Intergovernmental receivable in the debt service fund represents the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	<u>\$ 270,710</u>
Total	<u>\$ 270,710</u>

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

<u>Program Description or Governmental Entity</u>	<u>Amount</u>
Community Development Block Grant - State's Program	\$ 210,394
Department of Labor - Law 52 Grant	71,656
"Consorcio del Sureste"	61,887
Title V - Delinquency Prevention Program	41,468
Special Program for Aging - Title III	2,891
Homeland Security Grant Program	<u>532</u>
Total	<u>\$ 388,828</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Projects Fund- State and Local Grant	General Fund	Cash pool in the same bank account	\$ 621,606
Special Revenue Fund- State and Local Grants	General Fund	To provide cash flow to the General Fund	158,900
General Fund	Capital Projects Fund- State and Local Grant	Reimbursable expenditures	170,567
General Fund	Debt Service Fund	Interest not transferred	3,590
General Fund	Other Governmental Funds	Reimbursable expenditures	<u>216,007</u>
Total			<u>\$ 1,170,670</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	\$ 45,762
Capital Projects Fund-State and Local Grant	Other Governmental Funds	Residual equity transfer	1,500
Debt Service Fund	General Fund	Residual equity transfer	<u>16,185</u>
Total			<u>\$ 63,447</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

For the current year basic financial statements, the Municipality did not actualize the Capital Assets subsidiary ledger prepared during the GASB 34 implementation procedures in the past fiscal year, and therefore no additions, retirements and depreciation expense were recorded to present properly the total of capital assets, net of related accumulated depreciation, and the current year expenses in the Statement of Net Assets and in the Statement of Activities, respectively

For the reasons explained in the above paragraph, the Municipality's summary of capital assets illustrated below did not include the changes occurring in 2004:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</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	896,618			896,618
Work of art	177,700			177,700
Vehicles	595,845	<u>-</u>	<u>-</u>	<u>595,845</u>
Total capital assets being depreciated	<u>\$ 22,172,109</u>	<u>-</u>	<u>-</u>	<u>\$22,172,109</u>
Less accumulated depreciation for:				
Buildings	(\$ 2,555,433)			(\$2,555,433)
Equipment	(572,239)			(572,239)
Work of art	(151,660)			(151,660)
Vehicles	(287,519)	<u>-</u>	<u>-</u>	<u>(287,519)</u>
Total accumulated depreciation	<u>(\$ 3,566,851)</u>	<u>-</u>	<u>-</u>	<u>(\$3,566,851)</u>
Total capital assets being depreciated, net	<u>\$ 18,605,258</u>	<u>-</u>	<u>-</u>	<u>\$18,605,258</u>
Governmental activities capital assets, net	<u>\$ 20,143,662</u>	<u>\$ -</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, 2004

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.

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, 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$80,009 and is payable as follows:

<u>Year Ending</u> <u>June 30.</u>	<u>Amount</u>
2005	\$ 13,335
2006	13,335
2007	13,335
2008	13,335
2009	13,335
2010	<u>13,334</u>
Total	<u>\$ 80,009</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

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 Num. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted.

Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

The Government-Wide Statement of Net Assets includes an outstanding debt balance of \$848,853 and \$390,185 related to Law 42 and Law 146, respectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

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. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
State Insurance Fund ("FSE")	\$ 37,176
Puerto Rico Aqueduct and Sewer Authority ("AAA")	35,396
Department of Labor	29,499
General Services Administration	<u>2,070</u>
Total	<u>\$ 104,141</u>

8. DEFERRED REVENUES

- A. **Municipal License Tax**- The deferred revenues of approximately \$3,489,247 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. 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 or pass-through grantors are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Vouchers	\$ 133,395
Child Care and Development Block Grant	16,337
Library Services and Technology Grant	26,538
Federal Transit – Capital Improvement	10,560
Housing Opportunities for Persons with Aids	4,800
Emergency Management Performance Grants	6,469
Community Service Block Grant	1,874
Local Law Enforcement Block Grant	790
Others	<u>7,673</u>
Total	<u>\$ 208,436</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, 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	\$ 10,136,700	\$ 1,810,000	\$ 475,800	\$11,470,900	\$ 580,800
Notes Payable	500,000		125,000	375,000	70,000
Advance Property Tax Obligations Under Capital Leases	1,408,658		89,612	1,319,046	86,981
	99,546		29,677	69,869	69,869
Compensated Absences	1,371,980	268,913	115,441	1,525,452	82,000
Claims and judgments	<u>4,000</u>	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 13,520,884</u>	<u>\$ 2,078,913</u>	<u>\$ 839,530</u>	<u>\$ 14,760,268</u>	<u>\$ 889,650</u>

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

2. Bonds payable- The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities, and to pay debt incurred in prior years. During the current year, the Municipality issued bonds for approximately \$1,810,000. Bonds payable outstanding at June 30, 2004 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, 2004</u>
1990 Series	10-1-2008	\$ 216,000	8.00 %	\$ 45,900
1991 Series	7-1-2006	785,000	3.26% to 6.36%	245,000
1994 Series	7-1-2008	1,045,000	6.10% to 7.60%	505,000
1996 Series	7-1-2014	5,025,000	4.70% to 8.00%	3,775,000
1996 Series	7-1-2016	400,000	5.00% to 8.00%	300,000
1999 Series	7-1-2023	3,040,000	2.70% to 7.81%	2,765,000
2001 Series	7-1-2025	490,000	2.70% to 5.60%	470,000
2002 Series	7-1-2027	765,000	5.00% to 6.50%	755,000
2002 Series	7-1-2027	810,000	5.00% to 6.50%	800,000
2003 Series	7-1-2028	1,030,000	2.36% to 6.00%	1,030,000
2004 Series	7-1-2013	780,000	5.00% to 6.00%	<u>780,000</u>
Total general obligation bonds				<u>\$ 11,470,900</u>

These bonds, except the 1990 Series \$216,000 bond and the 1996 Series \$400,000 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. Also, as described in Note 15, the 1990 Series \$216,000 bond and the 1996 Series \$400,000 bond were cancelled with the proceed of a subsequent bond issued.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 580,800	\$ 589,529
2006	640,800	629,384
2007	680,800	590,178
2008	640,800	550,341
2009	687,700	509,878
2010-2014	3,540,000	1,950,461
2015-2019	1,940,000	1,035,858
2020-2024	1,905,000	556,205
2025-2029	<u>855,000</u>	<u>116,916</u>
Total	<u>\$ 11,470,900</u>	<u>\$ 6,528,750</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. 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, 2004</u>
2001 Series	7-1-2008	325,000	2.70% to 5.00%	\$ 245,000
2002 Series	7-1-2008	150,000	5.00% to 6.50%	<u>130,000</u>
Total notes payable				<u>\$ 375,000</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>
2005	\$ 70,000	\$ 13,315
2006	70,000	12,172
2007	75,000	9,094
2008	75,000	5,782
2009	<u>85,000</u>	<u>2,042</u>
Total	<u>\$ 375,000</u>	<u>\$ 42,404</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, 2004 as described in Note 6.
- 5. Obligations Under Capital Leases** - The Municipality has entered under certain leases agreements that 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.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

<u>Description</u>	<u>Governmental Activites</u>
Total minimum lease payments	\$ 74,371
Less amount representing interest	<u>(4,502)</u>
Present value of minimum lease payments	<u>\$ 69,869</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

- 6. Compensated absences-** The government-wide statement of net assets includes \$753,522 of accrued sick leave benefits, and \$771,930 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. 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.

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, 2004 amounted to approximately \$368,522 and \$328,789, respectively.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

10. PENSION PLAN (CONTINUED)

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, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

11. 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.

12. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

12. CONTINGENCIES (CONTINUED)

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.

13. CAPITAL ASSETS REPORTED VALUE:

The Municipality has not maintained complete and adequate records related to the Capital Assets reported in governmental activities of the government-wide financial statements and, therefore, such condition would affect the amounts of assets, net assets, and expenses of the governmental activities. The Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$3,708 to properly presents the previously reported fund balance at June 30, 2003. The restatement is due to the recognition of interfund transactions from the Debt Service Fund for interest pending to be transferred to the General Fund.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$330,196 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2002-2003, and the recognition of interfund transactions.

The beginning Governmental Activities Net Assets has been restated by approximately \$125,565 to properly present the previously reported net assets at June 30, 2003. The restatement is mainly due to fund balances restatements described above, the recognition of bond and notes accrued interest payable, and the recognition of account receivable from the former component unit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

15. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On July 23, 2004, the First Instance Court passed judgment about a demand settled by the Municipality against the "Corporación para el Desarrollo y Fomento Económico de Las Piedras, C.D.", a discretely presented component unit of the Primary Government. In such demand, the Municipality requests to the Court the nomination of a trustee to the Corporation, in addition to other related remedies. On said date, the First Instance Court passed judgment ordering the following: (a) the dissolution of the Corporation created under the dispositions of the Municipal Autonomous Act approved in August 1991; (b) reverting the corporation status to a not for profit corporation under the dispositions of the General Corporations Act; (c) and ordering the Corporation to pay promptly the \$75,000 owned to the Municipality.

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. In addition to the new formula established for the calculation of the contribution in lieu of taxes as described in Note 1 (E) (2), applicable on fiscal year 2002-2003 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates corresponding to the contribution in lieu of taxes for the current fiscal year.

On November 3, 2004, the Municipality of Las Piedras issued a general obligation bond in the amount of \$830,000. The bond proceeds were used for municipal road improvements, and for the cancellation of another two bonds outstanding; \$400,000 Bond, 1996 Series, and \$216,000 Bond, 1990 Series. The interest rate of this debt is 5%. The repayment of the bond is scheduled for 14 years.

On November 3, 2004, the Municipality of Las Piedras issued a general obligation bond in the amount of \$555,000. The bond proceeds were used for cash flow needs in the operational fund. The interest rate of this debt is 5%. The repayment of the bond is scheduled for 10 years.

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

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Property taxes	\$ 3,186,824	\$ 4,048,016	\$ 4,048,104	\$ 88
Municipal license tax	4,343,335	4,744,135	4,745,085	950
Licenses, permits and other local taxes	705,100	705,100	707,734	2,634
Charges for service	700	5,671	10,456	4,785
Intergovernmental	3,006,611	3,093,946	3,146,120	52,174
Rent of property	115,000	125,500	112,830	(12,670)
Fines and forfeitures	4,000	4,000	2,425	(1,575)
Interest	115,000	144,700	117,036	(27,664)
Miscellaneous	<u>15,100</u>	<u>596,252</u>	<u>565,418</u>	<u>(30,834)</u>
Total revenues	<u>11,491,670</u>	<u>13,467,320</u>	<u>13,455,208</u>	<u>(12,112)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	6,186,708	6,822,609	7,618,957	(796,348)
Public safety	868,976	819,191	815,975	3,216
Public works	2,725,884	3,991,186	4,013,653	(22,467)
Health and welfare	1,288,914	1,472,507	1,459,193	13,314
Culture and recreation	365,976	316,065	314,918	1,147
Operating transfer to other fund	<u>55,212</u>	<u>45,762</u>	<u>45,762</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>11,491,670</u>	<u>13,467,320</u>	<u>14,268,458</u>	<u>(801,138)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (813,250)</u>	<u>\$ (813,250)</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 13,455,208
Differences-budget to GAAP:				
Proceeds from debt issuance				780,000
GAAP adjustment to revenue				(578,471)
Non-budgeted transfer in				<u>16,185</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 13,672,922</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 14,268,458
Differences-budget to GAAP:				
Non-budgeted expenditures				405,422
Prior year encumbrances recorded as current year expenditures for GAAP basis				233,840
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(453,331)</u>
Total expenditures and other financial sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 14,454,389</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2004

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, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

B. Excess Expenditures, Encumbrances and Other Financial Sources Over Budget

The Municipality's General Fund had excess of expenditures, encumbrances and other financial uses over appropriations at the legal level of budgetary control in the following functions\programs:

<u>Expenditures, Encumbrances and Other Financing Uses:</u>	<u>Appropriations</u>	<u>Actual Amounts</u>	<u>Excess</u>
General government	\$ 6,822,609	\$ 7,618,957	(\$796,348)
Public works	3,991,186	4,013,653	(22,467)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<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		\$ 25,803
Total U.S. Department of Agriculture			<u>25,803</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		571,154
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - State's Program	14.228	03-AB,FC-55 02-AB, FC, FE-55 01-FD-55 00-FD-55 99-FD-55 98-FD-55	997,259
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	<u>27,860</u>
Total U.S. Department of Housing and Urban Development			<u>1,596,273</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2004

<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	<u>66,289</u>
Total U.S. Department of Justice			<u>66,289</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	18,857
Special Program for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	<u>40,338</u>
Total U.S. Department of Health and Human Services			<u>59,195</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency			
Homeland Security Grant Program	93.067	Not Available	<u>4,826</u>
Total U.S. Department of Homeland Security			<u>4,826</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,752,386</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, 2004

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	\$ 1,752,386
Non federal programs expenditures	<u>500,594</u>
Total expenditures in the general purpose financial Statements	<u>\$ 2,252,980</u>



López-Vega, CPA, PSC

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**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, 2004, and have issued our report thereon dated December 7, 2004, 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. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Las 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 04-01 and 04-02.

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 04-01 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is material weakness. 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 7, 2004.

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 7, 2004

Stamp No. 2019458 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

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**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, 2004. 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, 2004. 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, **04-03** through **04-05**.

**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 04-3 through 04-5.

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 04-03 and 04-04, 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 August 4, 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
August 4, 2004

Stamp No. 2019459 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, 2004

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

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
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, 2004

Section II – Financial Statements Findings

Finding Reference	04-01
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, 2004

Section II – Financial Statements Findings

Finding Reference	04-02
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, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-03
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 nineteen (19) cash advance requested by the Municipality during the fiscal year 2003-2004 and also, we verified the bank statements and cash reconciliations for that period. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. For three (3) 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.b. For nine (9) requisitions we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.c. The Municipality maintains an average cash balance of \$16,637 during the fiscal year 2003-2004.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (c), requires a cash management system in order to minimize the time elapsed 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, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-03 (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 strengthen 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, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-04
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 04-01

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-05
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	Procurement and Suspension and Debarment
Statement of Condition	<p>During our contract provision test we verified six (6) contracts formalized during the fiscal year 2003-2004. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. Six (6) contracts did not include a provision for granting access, to GAO or other federally agency, to books and other documentation.b. Three (3) contracts did not include a provision for compliance with the Clean Air Act and Water Act.c. Five (5) contracts did not include a provision for compliance with Energy Policy and Conservation Act.d. Five (5) contracts did not include provisions for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Subpart I, Section 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Section 570.489 (g).
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-04	14.871	<p><u>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.</u></p> <p>Full corrective action has been taken.</p>
03-05	14.228	<p><u>For seven (7) advances 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. For three (3) requisitions the Municipality requested funds that were not disbursed on a reasonable lapse of time.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 04-03.</p>
03-06	14.228	<p><u>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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 04-04.</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 04-03.</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>

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 04-04.
02-09	14.871	<u>The Municipality should improve monitoring procedures to assure that quality control re-inspections are properly documented in the participant 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> Full corrective action has been taken.
01-06	14.228	<u>Cash in excess of immediate needs</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-07	14.228	<u>Inadequate Property Records and Reports</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
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> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-III-03	14.228	<u>Federal Program Department does not have a property register.</u> The audit finding does not warrant further action because two years have

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
99-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
99-III-03	14.228	<u>Federal Program Department does not have a property register.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
98-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
98-III-02	14.228	<u>Federal Program Department does not have a property register.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.