

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SAN LORENZO**

**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2003

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2003  
(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133)**

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MUNICIPALITY OF SAN LORENZO, PUERTO RICO  
BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2003  
(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE  
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)**

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**PART I**  
**FINANCIAL**



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**INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
Member of the Municipal Legislature  
Municipality of San Lorenzo, 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 San Lorenzo, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2003, which collectively comprise the **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

The accompanying Management's Discussion and Analysis and budgetary comparison information on pages X through X and 28 and 29 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.

As described in Notes 1 and 14, the **Municipality** has implemented a new financial reporting model, as required by **GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments**, **GASB Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus**, **GASB Statement No. 38, Certain Financial Statement Note Disclosures**, and **GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements** as of July 1, 2002.

**INDEPENDENT AUDITORS' REPORT**

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In accordance with *Government Auditing Standards*, we have also issued a report dated February 13, 2004 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*CPA Diaz-Martinez, PSC*  
CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
February 13, 2004



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

**FINANCIAL HIGHLIGHTS**

- The Municipality net assets increased by \$5,870,805.
- In the fund financial statements, the governmental activities revenue decreased by \$8,535 (or 2%) while governmental activities expenditures increased \$5,468,204 (or 31%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$216,586.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$192,273.
- The Municipality issued bonds amounting to \$4,025,000 to finance mainly capital improvements.

**Using This Annual Report**

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

**Government-Wide Financial Statements**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

**Fund Financial Statements**

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

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

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

**Infrastructure Assets**

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

As of July 1, 2002, the Municipality commenced the reporting of infrastructure assets during the current year. The Municipality expects to retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$18,221,019 at the end of 2003, compared to net assets (excess of assets over liabilities) \$9,598,606 at the end of the previous year.

Condensed Statement of Net Assets  
June 30, 2003

Current assets	\$12,114,550
Capital assets	<u>20,875,070</u>
Total assets	<u>32,989,620</u>
Current liabilities	3,027,838
Noncurrent liabilities	<u>11,740,763</u>
Total liabilities	<u>14,768,601</u>
Invested in capital assets, net of related debt	14,410,070
Restricted	7,609,481
Unrestricted	<u>(3,798,532)</u>
Total net assets	<u>\$18,221,019</u>

Changes in Net Assets

The Municipality's net assets increased by \$5,870,805. Approximately 26 percent of the Municipality's total revenue came from taxes, while 70 percent resulted from grants and contributions, including federal aid. Charges for Services provided less than 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, health and welfare, sanitation and culture and recreation. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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Condensed Statement of Activities  
For the Fiscal Year Ended June 30, 2003

Program revenues:	
Charges for services	\$ 38,400
Operating grants and contributions	2,636,760
Capital grants and contributions	673,401
General revenues:	
Property taxes	3,382,938
Municipal license tax	1,533,317
Grants and contributions not restricted to specific programs	12,324,303
Interest and investment earnings	140,584
Miscellaneous	<u>875,825</u>
Total revenues	<u>\$21,605,524</u>
<b>Expense:</b>	
General government	7,327,887
Public safety	691,232
Public works	1,734,457
Culture and recreation	724,044
Health and welfare	2,580,649
Community development	583,272
Economic development	449,930
Interest on long-term debt	313,236
Sanitation	<u>1,330,012</u>
Total expenses	<u>15,734,719</u>
Change in net assets	5,870,805
Net assets, beginning of year	<u>12,350,214</u>
Net assets, end of year	<u>\$18,221,019</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$6,453,018, an increase of \$715,201 in comparison with the prior year. There are reservations of fund balance amounting to \$ 6,069,968. 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 (\$475,582), 2) to pay debt service (\$495,318), 3) to pay for CDBG (\$2,972) to pay Loan Fund (\$3,266,009) and 4) for other purposes (\$1,830,087).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a fund balance of \$858,632

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2003 the Municipality Council revised the Municipality's budget using \$613,289 available in the General Fund Balance of previous years to provide services to San Lorenzo's communities.

Actual revenues in fiscal year 2003 increased by \$762,427 or 7 percent. The differences in actual versus projected revenues were due primarily to three factors: 1) excess of contribution in lieu of tax of Puerto Rico Energy Power Authority (PREPA) for fiscal year 2001-2002 2) excess of property tax revenues over advances from Municipal Revenue Collection Center (CRIM) for fiscal year 2001-2002 and 3) amount transferred from Special Additional Contribution Account (CAE).

During the year the Municipality the increased in expenditures and other financing uses over budgeted amounts is mainly due to funds transfer to special and capital project funds.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$24,920,829, net of accumulated depreciation of \$4,045,759, leaving a net book value of \$20,875,070. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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The total increase in the Municipality's investment in capital assets for the current fiscal year was \$10,347,166 in terms of net book value. Depreciation charges for the year totaled \$599,830.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003, the Municipality has \$3,746,654 of unexpended proceeds from bond issuances that are committed to future construction activities.

**Debt Administration**

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

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

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**FINANCIAL CONTACT**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**STATEMENT OF NET ASSETS**

JUNE 30, 2003

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and Investments.....	\$ 3,526,125
Cash with Fiscal Agent.....	4,905,216
Receivables (net):	
Property Taxes.....	38,636
Federal Grants.....	2,300,837
Others.....	<u>1,343,736</u>
Capital Assets (Note 1 & 6):	
Land, Improvements, and Construction in Progress.....	9,907,571
Other Capital Assets, [Net of Depreciation].....	<u>10,967,499</u>
Total Capital Assets.....	<u>20,875,070</u>
<b>TOTAL ASSETS.....</b>	<b><u>32,989,620</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses.....	1,617,679
Due to other Governmental Units.....	38,631
Deferred Revenue.....	1,371,528
Long-Term Liabilities (Note 7):	
Due within One Year.....	2,935,198
Due in More than One Year.....	<u>8,805,565</u>
Total Liabilities.....	<u>14,768,601</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt.....	14,410,070
Restricted for:	
Debt Service.....	495,318
Community Development Projects.....	1,818,510
Other Purposes.....	5,295,653
Unrestricted (Deficit).....	<u>(3,798,532)</u>
<b>TOTAL NET ASSETS.....</b>	<b><u>\$18,221,019</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>Governmental Activities:</b>					
General Government .....	\$ 7,327,887	\$ -	\$ 422,004	\$ -	(\$ 6,905,883)
Public Safety.....	691,232	-	266,406	-	(424,826)
Public Works.....	1,734,457	-	100,861	376,200	(1,257,396)
Health and Welfare .....	2,580,649	-	1,169,294	-	(1,411,355)
Culture and Recreation.....	724,044	-	-	297,201	(426,843)
Sanitation.....	1,330,012	-	-	-	(1,330,012)
Urban Development.....	449,930	-	-	-	(449,930)
Community Development .....	583,272	38,400	678,195	-	133,323
Interest on Long-Term Debt .....	313,236	-	-	-	(313,236)
<b>Total Governmental Activities.....</b>	<b>\$15,734,719</b>	<b>\$ 38,400</b>	<b>\$ 2,636,760</b>	<b>\$ 673,401</b>	<b>(12,386,158)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property Taxes, levied for General Purposes.....					2,734,882
Property Taxes, levied for Debt Service .....					648,056
Volume of Business Taxes .....					1,533,317
Construction Taxes.....					600,847
Intergovernmental.....					11,858,655
Rent .....					5,385
Miscellaneous .....					875,821
<b>Total General Revenues.....</b>					<b>18,256,963</b>
<b>CHANGE IN NET ASSETS.....</b>					<b>5,870,805</b>
Net Assets – Beginning of Year.....					12,350,214
<b>NET ASSETS – ENDING OF YEAR .....</b>					<b>\$18,221,019</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2003

	<u>GENERAL</u>	<u>LOAN FUND</u>	<u>DEBT SERVICE FUND</u>	<u>CDBG FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>						
Cash and Investments (Note 1).....	\$ 2,515,103	\$ -	\$ -	\$ 9	\$ 1,011,013	\$ 3,526,125
Cash with Fiscal Agent .....	-	3,409,226	1,036,949	-	459,041	4,905,216
Receivables:						
Property Taxes .....	20,213	-	18,423	-	-	38,636
Federal Grants .....	-	-	-	2,108,093	192,744	2,300,837
Due from Other Funds .....	603,405	-	-	-	1,122,314	1,725,719
Others .....	<u>1,167,178</u>	<u>-</u>	<u>785</u>	<u>-</u>	<u>175,773</u>	<u>1,343,736</u>
<b>Total Assets .....</b>	<b><u>\$ 4,305,899</u></b>	<b><u>\$ 3,409,226</u></b>	<b><u>\$ 1,056,157</u></b>	<b><u>\$ 2,108,102</u></b>	<b><u>\$ 2,960,885</u></b>	<b><u>\$13,840,269</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts Payable .....	\$ 326,148	\$ -	\$ -	\$ 170,067	\$ 562,936	\$ 1,059,151
Accrued Interest .....	-	-	558,528	-	-	558,528
Due to Governmental Units .....	8,679	-	-	-	29,952	38,631
Due to Other Funds .....	1,122,314	143,217	2,311	119,524	338,353	1,725,719
Deferred Revenues:						
Volume of Business Tax .....	1,371,528	-	-	-	-	1,371,528
Local Grants .....	618,598	-	-	-	-	618,598
Federal Grants .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,815,539</u>	<u>199,557</u>	<u>2,015,096</u>
<b>Total Liabilities .....</b>	<b><u>3,447,267</u></b>	<b><u>143,217</u></b>	<b><u>560,839</u></b>	<b><u>2,105,130</u></b>	<b><u>1,130,798</u></b>	<b><u>7,387,251</u></b>
Fund Balances:						
Reserve For:						
Encumbrances .....	475,582	-	-	-	-	475,582
Capital Project .....	-	3,266,009	-	-	-	3,266,009
Debt Service .....	-	-	495,318	-	-	495,318
CDBG .....	-	-	-	2,972	-	2,972
Other Purposes .....	-	-	-	-	1,830,087	1,830,087
Unreserved .....	<u>383,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>383,050</u>
<b>Total Fund Balances .....</b>	<b><u>858,632</u></b>	<b><u>3,266,009</u></b>	<b><u>495,318</u></b>	<b><u>2,972</u></b>	<b><u>1,830,087</u></b>	<b><u>6,453,018</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES .....</b>	<b><u>\$ 4,305,899</u></b>	<b><u>\$ 3,409,226</u></b>	<b><u>\$ 1,056,157</u></b>	<b><u>\$ 2,108,102</u></b>	<b><u>\$ 2,960,885</u></b>	<b><u>\$13,840,269</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2003

**Total Fund Balances – Governmental Funds (Page 13) ..... \$ 6,453,018**

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 11)  
are different because:

Capital Assets used in governmental activities are not financial resources and therefore are  
not reported in the funds. In the current period, these amounts are:

Capital Assets ..... 20,875,070

Some of the **Municipality's** revenues will be collected after year-end but are not available  
soon enough to pay for the current period's expenditures and therefore are deferred in  
the funds:

General (Municipal Revenue Collection Agency) .....	\$ 462,933	
Puerto Rico Electric Power Authority .....	155,665	
Federal Programs .....	<u>2,015,096</u>	
Total Deferred Revenues .....		2,633,694

Some liabilities are not due and payable in the current period and therefore are not reported  
in the funds. Those liabilities consist of:

General Bonds and Notes Payable.....	7,278,254	
Compensated Absences.....	842,428	
Property Tax Advances.....	1,374,859	
Solid Waste Disposal .....	325,222	
Claims and Judgments .....	<u>1,920,000</u>	
Total Long-Term Liabilities .....		(11,740,763)

**Total Net Assets of Governmental Activities (Page 11)..... \$18,221,019**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL	LOAN FUND	DEBT SERVICE FUND			
<b>REVENUES</b>						
Property Taxes .....	\$ 2,271,949	\$ -	\$ 648,056	\$ -	\$ -	\$ 2,920,005
Volume of Business Taxes .....	1,533,317	-	-	-	-	1,533,317
Federal Assistances .....	-	-	-	548,254	1,008,600	1,556,854
Intergovernmental .....	4,975,708	-	-	-	1,442,255	6,417,963
Licenses and Permits .....	600,847	-	-	-	-	600,847
Fines and Forfeitures .....	2,185	-	-	-	-	2,185
Interest .....	140,869	-	-	-	-	140,869
Rent .....	5,385	-	-	-	-	5,385
Miscellaneous .....	732,767	-	-	17	24,467	757,251
<b>Total Revenues .....</b>	<b>10,263,027</b>	<b>-</b>	<b>648,056</b>	<b>548,271</b>	<b>2,475,322</b>	<b>13,934,676</b>
<b>EXPENDITURES</b>						
Current:						
General Government .....	5,470,975	15,805	-	12	576,304	6,063,096
Public Safety .....	446,261	-	-	-	178,161	624,422
Public Works .....	1,359,176	743,186	-	-	1,223,817	3,326,179
Health Services and Welfare .....	419,026	-	-	-	2,161,623	2,580,649
Culture and Recreation .....	568,600	-	-	-	118,948	687,548
Sanitation .....	1,296,090	-	-	-	33,922	1,330,012
Urban Development .....	-	-	-	-	449,930	449,930
Community Development .....	-	-	-	545,287	-	545,287
Capital Outlay .....	498,267	-	-	-	982,095	1,480,362
Debt Service:						
Principal .....	-	-	661,063	-	-	661,063
Interest and Other Charges .....	-	-	313,236	-	-	313,236
<b>Total Expenditures .....</b>	<b>10,058,395</b>	<b>758,991</b>	<b>974,299</b>	<b>545,299</b>	<b>5,724,800</b>	<b>18,061,784</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers - In .....	-	-	332,607	-	498,381	830,988
Transfers - Out .....	(830,988)	-	-	-	-	(830,988)
Proceed of Bonds .....	-	4,025,000	-	-	-	4,025,000
<b>Total Other Financing Sources and Uses .....</b>	<b>(830,988)</b>	<b>4,025,000</b>	<b>332,607</b>	<b>-</b>	<b>498,381</b>	<b>4,025,000</b>
<b>Net Change in Fund Balances .....</b>	<b>(626,356)</b>	<b>3,266,009</b>	<b>6,364</b>	<b>2,972</b>	<b>(2,751,097)</b>	<b>(102,108)</b>
Fund Balance - Beginning, as Restated (Note 14) .....	1,184,988	-	788,954	-	4,581,184	6,555,126
Residual Equity Transfer (Note 1 K) .....	300,000	-	(300,000)	-	-	-
<b>FUND BALANCES - ENDING .....</b>	<b>\$ 858,632</b>	<b>\$ 3,266,009</b>	<b>\$ 495,318</b>	<b>\$ 2,972</b>	<b>\$ 1,830,087</b>	<b>\$ 6,453,018</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**Net Change in Fund Balances – Total Governmental Funds (Page 15) ..... (\$ 102,108)**

Amounts reported for Governmental Activities in the Statement of Activities (Page 12)  
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of  
Activities the cost of those assets is allocated over their estimated useful lives and reported  
as depreciation expense. In the current period, these amounts are:

Capital Outlay .....	\$ 4,219,714	
Depreciation Expense .....	<u>(599,830)</u>	
Excess of Capital Outlay over Depreciation Expense .....		3,619,884

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. ....	324,968
--	---------

Intergovernmental receivables collected after year-end, but not available soon enough to pay current liabilities are not reported as revenues in the funds. ....	618,598
---	---------

Repayment of long-term debt principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were. ....	661,063
---	---------

Repayment of others long-term debts is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were. ....	153,900
---	---------

Some expenses reported in the Statement of Activities do not require the use of current  
financial resources and therefore are not reported as expenditures in governmental funds.  
These activities consist of:

Increase in Compensated Absences .....	(\$ 187,782)	
Increase in Claims and Judgments .....	<u>(1,920,000)</u>	
Total Additional Expenditures .....		<u>(2,107,782)</u>

Donation of capital assets from outside parties do not provide current financial resources in Governmental Funds are recognized based on the fair value of the donated property in the Government-Wide Financial Statement.....	6,727,282
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Bond proceeds provide current financial resources to Governmental Funds but for the Government-Wide Financial Statement is an issuance of a debt and therefore recognized as an increase in long-term debt.....	<u>(4,025,000)</u>
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**Change in Net Assets of Governmental Activities (Page 12) ..... \$ 5,870,805**

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of San Lorenzo, Puerto Rico (Municipality)** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

The accompanying basic financial statements of the **Municipality** have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The **Municipality** adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2002. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the **Municipality** has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the **Municipality** has implemented the following GASB Statements in the current fiscal year: GASBS No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the **Municipality** and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2003, and for the

fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**A. Financial Reporting Entity**

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Municipality's** financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Municipality** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Municipality**.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2003, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

**B. Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Governmental Fund Financial Statements**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)

B. Measurement Focus and Basis of Accounting (continuation)

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2003, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the **Statement of Net Assets** is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The **Statement of Net Assets** presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The **Statement of Activities** is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the **Balance Sheet**, the **Statement of Revenues, Expenditures, and Changes in Fund Balances**, the **Statement of Net Assets**) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)

C. Financial Statement Presentation (continuation)

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and separate explanation for each differences.

The **Municipality** reports its financial position (**Balance Sheet**) and results of operations (**Statement of Revenues, Expenditures and Changes in Fund Balance**) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The **Municipality** reports the following major fund:

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

**Loan Fund** – This is the fund used to account for the proceed of bonds to be use for capital improvement.

**Debt Service Fund** – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests

**CDBG Fund** – This is the fund used to account for all the transactions of the Community Development Block Grant Program. The primarily objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide **Statement of Net Assets**.

D. Budgetary Data

The **Municipality's** annually adopts the Budget Resolution for all operating funds of the **Municipality** except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The **Municipality's** Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as

the total budget of the **Municipality** (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the **Municipality**; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. **Municipality's** Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the **Municipality** to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)**

**D. Budgetary Data (continuation)**

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 9).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**E. Cash, Cash Equivalent and Investment**

The Director of Finance of the **Municipality** is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

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

account by the Government Development Bank of the Commonwealth of Puerto Rico.

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

**F. Receivable**

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

**G. Inventories**

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

**H. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The **Municipality's** capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives: **(See Table 1)**

TABLE 1	
CAPITAL ASSETS	YEARS
Buildings and site Improvements	40
Infrastructure	40
Works of art	10
Motor Vehicles, furniture and fixtures	5
Machinery and Equipments	3-5

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)**

**I. Compensated Absences**

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 7 on page 24).

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2003 (Table 2).

BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003	CURRENT PORTION	LONG-TERM PORTION
\$654,646	\$187,782	\$ -	\$842,428	\$163,000	\$ 679,428

**J. Insurance**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

**K. Interfund Transactions**

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of transactions among funds:

*Interfund Transfers* – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

*Residual Equity Transfers* – Nonrecurring or no routine transfers of equity between funds. During the Fiscal Year 2002-2003 the Municipal Revenue Collection Agency, Fiscal Agent, authorized the equity transfer from Debt Service Fund to General Fund in the amount of \$300,000.

**L. Reservations of Fund Balance – Governmental Funds**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for encumbrances, debt service, and other specific purposes are examples of the latter. The Municipality has the following reservations of fund balance:

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

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

**M. Claims and Judgments**

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

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continuation)

**N. Use of Estimates**

The preparation of the basic 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 and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

**NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2003, the market value of investments recorded in General Fund approximated its carrying value as follow: (See Table 3)

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	TABLE 3 EXPIRATION DATE
EuroBank of Puerto Rico .....	2205003327	\$ 400,000	2.38%	07-09-03
Oriental Bank .....	131005980	400,000	1.01%	01-18-03
Oriental Bank .....	131006407	400,000	1.01%	08-23-03
<b>TOTAL .....</b>		<b>\$1,200,000</b>		

The investments are included in the General Fund.

**NOTE 3 OTHERS RECEIVABLES**

As of June 30, 2003, the amount of \$548,580 corresponds to an agreement with the quasi public Corporation, P.R. Electric Power Authority, for the revision of the "In lieu of tax" payments from prior years, \$155,665 for final liquidation of PR Electric Power Authority, and \$462,933 from revision of Intergovernmental Revenue from Municipal Revenue Collection Center and \$20,213 from others.

**NOTE 4 INTERFUND TRANSFER AND BALANCES**

**A. INTERFUND TRANSFERS**

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. (See Table 4)

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$332,607	Debt payment
General Fund	Other Fund	498,381	Specific project funding
<b>Total</b>		<b>\$830,988</b>	

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivables and payables at June 30, 2003 are summarized as follows: (See Table 5)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 5 AMOUNT
General Fund	Debt Service Fund	\$ 2,311
General Fund	Other Fund	338,353
Other Fund	General Fund	1,122,314
General Fund	Loan Fund	143,217
General Fund	CDBG	119,524
<b>TOTAL</b>		<b>\$1,725,719</b>

**NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2003, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 6)

TABLE 6	AMOUNT
Water Company .....	\$ 5,278
General Service Administration .....	3,401
<b>Total Due to Governmental Units .....</b>	<b>\$ 8,679</b>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 6 CAPITAL ASSETS**

Capital Assets activities for the fiscal year ended June 30, 2003 was as follows (See Table 7)

TABLE 7	BALANCE JULY 1, 2002	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2003
<b>Non-Depreciable Capital Assets:</b>				
Land .....	\$ 4,078,644	\$ 5,522,041	\$ -	\$ 9,600,685
Construction in Progress .....	-	306,886	-	306,886
Total Non-Depreciable Capital Assets.....	<u>4,078,644</u>	<u>5,828,927</u>	<u>-</u>	<u>9,907,571</u>
<b>Depreciable Capital Assets:</b>				
Buildings .....	7,142,779	1,805,217	-	8,947,996
Infrastructure.....	-	2,770,289	-	2,770,289
Machinery and Equipment.....	1,649,299	151,814	-	1,801,113
Motor Vehicles .....	1,103,111	390,749	-	1,493,860
Total Depreciable Capital Assets.....	<u>9,895,189</u>	<u>5,118,069</u>	<u>-</u>	<u>15,013,258</u>
<b>Less Accumulated Depreciation:</b>				
Buildings .....	(1,820,165)	(181,037)	-	(2,001,202)
Infrastructure.....	-	(47,601)	-	(47,601)
Machinery and Equipment.....	(1,167,858)	(166,577)	-	(1,334,435)
Motor Vehicles .....	(457,906)	(204,615)	-	(662,521)
Total Accumulated Depreciation.....	<u>(3,445,929)</u>	<u>(599,830)</u>	<u>-</u>	<u>(4,045,759)</u>
Total Depreciable Capital Assets (Net).....	<u>6,449,260</u>	<u>4,518,239</u>	<u>-</u>	<u>10,967,499</u>
CAPITAL ASSETS, NET .....	<u>\$10,527,904</u>	<u>\$10,347,166</u>	<u>\$ -</u>	<u>\$20,875,070</u>

Depreciation expenses were charged to governmental functions/programs as follows: (See Table 8)

TABLE 8	AMOUNT
General Government .....	\$ 235,106
Public Safety .....	66,810
Public Works.....	223,433
Community Development .....	37,985
Culture and Recreation .....	36,496
Total Depreciation Expenses .....	<u>\$ 599,830</u>

**NOTE 7 GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE**

The principal long-term obligations of the **Municipality** are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the **Municipality**.

General obligations bonds and notes payable as of June 30, 2003, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$1,525,000, Series 1997, for construction purposes, payable in semi-annual installments ranging from \$20,000 to \$135,000, excluding interests at 8.00% until July 1, 2021.....	\$ 1,335,000
\$575,000, Series 1996, for construction purposes, payable in semi-annual installments ranging from \$15,000 to \$60,000, excluding interests at 8.00% until July 1, 2015.....	455,000
\$1,640,000, Series 1992, for construction purposes, payable in semi-annual installments ranging from \$65,000 to \$190,000, excluding interests at 6.36% through July 1, 2006.....	525,000
\$4,025,000, Series 2003, for construction purposes, payable in semiannual installments ranging to \$140,000 to \$650,000, excluding interests at 3.00%, until August 1, 2005; (paid through CDBG funds) .....	<u>3,960,000</u>
Total General Obligations Bonds.....	<u>6,275,000</u>
<b>Special Obligations Notes:</b>	
\$221,269, Series 1988, for operational purposes, payable in quarterly installments of \$2,766 excluding interests at 8.00%, through July 1, 2007.....	44,254

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 7 GENERAL LONG-TERM DEBTS (continuation)**

DESCRIPTION	AMOUNT
<b>Special Obligations Notes:</b>	
\$300,000, Series 1987, for construction purposes, payable in semiannual installments of \$15,000, excluding interest at 9.00%, through July 1, 2007.....	\$ 60,000
\$550,000 Series 2000, for construction purposes, payable in annual installments ranging from \$90,000 to \$130,000, excluding variable interests from 7.29% to 8.00%, until July 1, 2004.....	130,000
\$4,100,000, Series 1986, for operational purposes, payable in semiannual installments ranging from \$205,000 to \$264,000, excluding interests at 8.500%, until July 1, 2016 .....	769,000
Total Special Obligations Notes.....	1,003,254
Total General and Special Obligations.....	<u>\$7,278,254</u>

The **Municipality's** general obligations long-term note retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the **Municipality**.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2003 are as follows (See Table 9):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2004	\$ 698,298	\$ 443,480	\$ 1,141,778
2005	601,064	419,405	1,020,469
2006	630,063	382,079	1,012,142
2007	191,063	342,802	533,865
2008	182,766	330,834	513,600
2009-2013	1,075,000	1,474,731	2,549,731
2014-2018	1,340,000	1,092,127	2,432,127
2019-2023	1,430,000	632,523	2,062,523
2024-2028	1,130,000	189,475	1,319,475
TOTAL	<u>\$ 7,278,254</u>	<u>\$ 5,307,456</u>	<u>\$12,585,710</u>

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts (See Table 10):

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003
Property Taxes – MRCC.....	\$ 663,453	\$ -	\$ 49,020	\$ 614,433
Property Taxes – Treasury.	235,585	-	32,880	202,705
Claims and Judgments.....	-	1,920,000	-	1,920,000
Property Taxes – Law 146..	557,721	-	-	557,721
Solid Waste Disposal.....	397,222	-	72,000	325,222
Compensated Absences.....	654,646	187,782	-	842,428
TOTAL .....	<u>\$ 2,508,627</u>	<u>\$ 2,107,782</u>	<u>\$ 153,900</u>	<u>\$ 4,462,509</u>

**C. CHANGES IN GENERAL LONG-TERM DEBTS**

The following is a summary of changes in long-term debts for the year ended June 30, 2003: (See Table 11)

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 2,705,000	\$ 4,025,000	\$ 455,000	\$ 6,275,000	\$ 295,000	\$ 5,980,000
Special.....	1,504,317	-	501,063	1,003,254	403,298	599,956
Others Debts .	2,508,627	2,107,782	153,900	4,462,509	2,236,900	2,225,609
TOTAL.....	<u>\$ 6,717,944</u>	<u>\$ 6,132,782</u>	<u>\$ 1,109,963</u>	<u>\$11,740,763</u>	<u>\$ 2,935,198</u>	<u>\$ 8,805,565</u>

**NOTE 8 DEBT RETIREMENT**

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 9).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 7). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**NOTE 9 PROPERTY TAXES**

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.05% and 5.05%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the **Municipality** of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**NOTE 9 PROPERTY TAXES (continuation)**

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$50,000, to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2003, the Debt Service Fund presented a receivable of \$38,636 for the collection of additional property taxes during the next 60 days after end of year.

**NOTE 10 VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 1.00% for saving and loan associations.
- c. Other organizations
  - 0.30% below \$100,000.
  - 0.40% \$100,000 through \$200,000
  - 0.50% over \$200,001

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**NOTE 11 INTERGOVERNMENTAL REVENUES**

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

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**NOTE 12 EMPLOYEE'S RETIREMENT PLAN**

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

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

The **Municipality** adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

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

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)**

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program, and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows (See Table 12)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 12
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.	
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.	
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).	

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving

benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2003 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately \$370,505. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2003. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

**NOTE 13 CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of two (2) lawsuit related to personnel matter and back pay, to which the legal counsel has estimate a potential loss of \$1,920,000. Lawsuit of \$1,270,000 is in appeal in other Court. Accordingly, the financial statements include adjustments in Long-Term Liabilities because will be paid with future resources if the Courts decided in against of the **Municipality**. However, it has been the **Municipality's** experience that such actions are settled for amounts substantially less than the claimed amounts.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 13 CONTINGENCIES (continuation)**

**FEDERAL GRANTS**

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

**NOTE 14 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS**

During fiscal year 2002-2003, the **Municipality** implemented several new accounting standards and an interpretation issued by GASB.

GASBS No. 34 as amended by GASBS No. 37 establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

GASBS No. 38 requires certain note disclosures when GASBS No. 34 is implemented. The provisions of these new standards have been incorporated into the basic financial statements and notes.

GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (1) governmental fund liabilities and (2) general long-term liabilities of the government. The provisions of this interpretation have been incorporated into the basic financial statements and notes.

These new accounting standards caused most of the accounting changes, changes in reporting entity, and restatements described on the ensuing discussions below. Changes and restatements for reasons other than the adoption of the above pronouncements are also explained below.

Also, restatements were presented for prior period adjustment of Special Revenue Funds of the Audited Financial Statements as of June 30, 2002.

**Table 13** reconciles the June 30, 2002 Fund Balance, as previously reported to Beginning Fund Balance as restated, July 1, 2002.

FUND BALANCE RESTATED	Table 13	
	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUND
Fund Balances, as Previously Reported June 30, 2002.....	\$1,175,697	\$3,377,132
Adjustments to revenues in accordance with GAAP .....	-	1,204,052
Change in Accounting Principles: Principal and Interest Payable .....	(386,743)	-
Beginning Fund Balances, as Restated, July 1, 2002.....	<u>\$ 788,954</u>	<u>\$4,581,184</u>

**NOTE 15 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT**

The Governmental Accounting Standards Board (GASB) issued GASBS No. 39, *Determining Whether Certain Organizations are Component Units*, which is effective for fiscal year beginning after June 15, 2003. The **Municipality** has not adopted the requirement of this statement.

**END OF NOTES**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>BUDGETARY FUND BALANCE, JULY 1, 2002.....</b>	<b>\$ 1,184,988</b>	<b>\$ 1,184,988</b>	<b>\$ 1,184,988</b>	<b>\$ -</b>
Resources (Inflows):				
Property Taxes.....	2,271,949	2,271,949	2,271,949	-
Volume of Business Taxes.....	2,685,771	2,685,771	2,113,951	(571,820)
Intergovernmental Revenues.....	4,555,122	4,555,122	4,975,702	420,580
License and Permits.....	13,000	13,000	2,185	(10,815)
Rent.....	4,200	4,200	5,385	1,185
Miscellaneous.....	122,100	122,100	1,173,635	1,051,535
Prior Year Allocation.....	-	613,289	-	-
<b>Total Resources (Inflows).....</b>	<b>9,652,142</b>	<b>10,265,431</b>	<b>10,542,807</b>	<b>890,665</b>
<b>Amounts Available for Appropriation.....</b>	<b>10,837,130</b>	<b>11,450,419</b>	<b>11,727,795</b>	<b>890,665</b>
Charges to Appropriations (Outflows):				
General Government.....	4,562,700	5,287,654	5,242,874	44,780
Public Safety.....	544,285	481,609	479,976	1,633
Public Works.....	1,208,676	1,272,495	1,399,789	(127,294)
Health and Welfare.....	419,026	419,026	419,026	-
Culture and Recreation.....	629,643	542,853	572,916	(30,063)
Sanitation.....	1,472,800	1,459,000	1,321,290	137,710
Capital Outlays.....	446,489	470,187	468,221	1,966
Transfer to Other Funds.....	368,523	332,607	830,988	(498,381)
<b>Total Charges to Appropriations.....</b>	<b>9,652,142</b>	<b>10,265,431</b>	<b>10,735,080</b>	<b>(469,649)</b>
<b>BUDGETARY FUND BALANCE, JUNE 30, 2003.....</b>	<b>\$ 1,184,988</b>	<b>\$ 1,184,988</b>	<b>\$ 992,715</b>	<b>\$ 421,016</b>

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	<u>GENERAL FUND</u>
<b>Sources/Inflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 28).....	\$11,727,795
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	(1,184,988)
Residual Equity Transfer recorded as miscellaneous revenues.....	(300,000)
Non-budgeted Revenues.....	<u>20,220</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15).....	<u>\$10,263,027</u>
<b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 28).....	\$10,735,080
Difference – Budget to GAAP:	
Prior-Year Expenditures are not outflows of budgetary resources but are <i>expenditures</i> for financial reporting purposes.....	411,098
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	(256,795)
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.....	<u>(830,988)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15).....	<u>\$10,058,395</u>
<b>NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance</b>	
Budgetary Fund Balance, June 30, 2003 (See Page 28).....	\$ 992,715
Timing Differences:	
Net Change in Encumbrances.....	(217,782)
Non-budgetary Items.....	<u>(391,883)</u>
Unrestricted Fund Balance, June 30, 2003 (See Page 13).....	<u>\$ 383,050</u>

**END OF THIS SECTION**

**PART II**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Voucher Program .....	14.871	RQ037VO	\$ 661,852
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP) .....	14.228	02-AF-FD-58 01-FD-FC-58 00-FD-FC-58 98-FD-58 97-FD-58 96-FD-58 95-FD-58 94-AF-FD-58	<u>545,300</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,207,152</u>
U.S. Department of Justice:			
Public Safety Partnership and Community Policing Grants .....	16.710		98,555
Local Law Enforcement Block Grant .....	16.592		<u>79,606</u>
Total U.S. Department of Justice .....			<u>178,161</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant .....	83.544	FEMA1136DR-PR FEMA1247DR-PR FEMA1396DR-PR	<u>292,262</u>
U. S. Department of Health and Human Services:			
Pass Through Administration of Children and Families:			
Child Care and Development Block Grant .....	93.575	CC-V02	<u>328,683</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$2,006,258</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of San Lorenzo, Puerto Rico (Municipality)**. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**NOTE 4 PASS-THROUGH GRANTOR'S NUMBER**

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

**NOTE 5 MAJOR PROGRAMS**

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

**END OF NOTES**



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

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

We have audited the basic financial statements of **Municipality of San Lorenzo, Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2003, and have issued report thereon dated February 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

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

Page 2

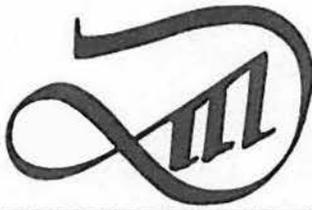
This report is intended solely for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*CPA Diaz-Martinez, PSC*

CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
February 13, 2004





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

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

**Compliance**

We have audited the compliance of the **Municipality of San Lorenzo, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The **Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

As described in items 03-III-01 and 03-III-06 through 03-III-09 in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirements regarding Davis-Bacon Act and Special Test and Provisions that are applicable to its State Block Grant Program and Section 8 Housing Choice Vouchers Program. Compliance with such requirements is necessary, in our opinion, for **Municipality** to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-02 through 03-III-05 and 03-III-10.

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

Page 2

**Internal Control Over Compliance**

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

We noted certain matter 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's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 03-III-05.

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 in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider item 03-III-01 to be material weakness.

This report is intended solely for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*CPA Diaz-Martinez, PSC*  
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Caguas, Puerto Rico  
February 13, 2004



**PART III**  
**FINDINGS AND QUESTIONED COSTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION I – SUMMARY OF AUDITORS' RESULTS

**Financial Statements**

Type of auditors' report issued:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

Internal control over financial reporting:

● Reportable condition(s) identified?  Yes  None Reported

● Material weakness(es) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

● Reportable condition(s) identified?  Yes  None Reported

● Material weakness (es) identified?  Yes  No

Type of auditors' report issued on compliance for Major Programs:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	State Block Grants Program
14.871	Section 8 Housing Choice Voucher Program

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

Auditee qualified as low-risk auditee?  Yes  No

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**NO MATTER IS REPORTED.**

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-01</b>
<b>FEDERAL PROGRAM</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>DAVIS-BACON ACT</b>
<b>CONDITION</b>	<b>Municipality</b> did not develop a monitoring system to ensure that contractors paid prevailing wages payments according to Department of Labor.
<b>CRITERIA</b>	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). Also, the Federal Program Manual, Phase II, Section 2, issued by the Office of Commissioner of Municipal Affairs state similar requirements.
<b>CAUSE</b>	<b>Municipality</b> did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the Act. The procedures established that the <b>Municipality</b> must interview the employees at the beginning, at a middle stage and at the end of the project.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
<b>RECOMMENDATION</b>	We recommend management to develop a monitoring system that includes obtaining prevailing wage rates from the Department of Labor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, obtaining contractor's payrolls and perform the interviews to contractor's and subcontractor's laborers accordingly to the established requirements.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-02</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELIGIBILITY TEST</b>
<b>CONDITION</b>	During our Participant Files Test we noted that five (5) participants' file did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart F, Section 5.617 (b) stated that as a condition of admission to, or continued occupancy of, any assisted unit, the <b>Municipality</b> shall require the family head and other such family members as it designated, on 24 CFR, Subpart B, Section 5.230 (a), to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the <b>Municipality</b> and to HUD such information as the <b>Municipality</b> and HUD determines to be necessary. Also it is stated on 24 CFR, Subpart K, Section 982.516 (g).
<b>CAUSE</b>	<b>Municipality</b> does not have consent forms that authorize the collection of income information from State Wages Information Collection Agencies (SWICA), and wages, net earnings from self-employment, payments of retirement income, and unearned income as referenced at 26 U.S.C. 6103. In addition consent form may authorize the collection of other information from applicants and participants to determine eligibility or level of benefits.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart F, Section 5.617(b); Subpart B, Section 5.230(a); and Subpart K, Section 982.516 (g).
<b>RECOMMENDATION</b>	We recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-03</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELIGIBILITY TEST</b>
<b>CONDITION</b>	During our Participant Files Test we noted that tenants' file does not contained the third parties verifications regarding the family income and the family composition.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart K, Section 982.516 (a)(2) stated that the <b>Municipality</b> must obtain and document in the tenants' file third party verification of the following factors, or must document in the tenant file why third party verification was not available: (i) reported family annual income, (ii) the value of assets, (iii) expenses related to deductions from annual income and (iv) other factors that affect the determination of adjusted income.
<b>CAUSE</b>	<b>Municipality</b> does not maintain tenants' files as required by federal regulations in order to verify the information provided by the applicant or participants regarding the family income and the family composition.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart K, Section 982.516 (a)(2).
<b>RECOMMENDATION</b>	We recommend management to implement the necessary procedures in order to comply with program regulations.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-04</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELIGIBILITY TEST</b>
<b>CONDITION</b>	During our Participant Files Test we noted that two (2) tenants' file does not contained evidence of unit's property deeds. Also we notice that in four (4) tenants' file the proprietor's name mentioned at the property deeds was different from those who were received the HAP payment.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart G, Section 982.306 (d) stated that the <b>Municipality</b> must not approve a unit if the owner is the parent, child, grandparent, grandchild, sister, or brother of any member of the family.
<b>CAUSE</b>	<b>Municipality</b> does not implement procedures that guarantee that the family does not own nor has any interest in the unit.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart G, Section 982.306 (d).
<b>RECOMMENDATION</b>	We recommend management to implement the necessary procedures in order to comply with program regulations.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-05</b>
<b>FEDERAL PROGRAM</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT STANDARDS</b>
<b>CONDITION</b>	The model for construction contracts over \$10,000 used by the <b>Municipality</b> did not contain the clauses detailed for compliance with the provisions for suspension and debarment, Davis-Bacon Act, contract work hours and safety standards; and compliance with Executive Order 11246 EEO, Clear Air and Clear Water Act Energy Policy and Conservation Act for contracts over \$100,000, as required by the program regulation.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) stated that subgrantee's contract must contain provision in paragraph (i) of this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
<b>CAUSE</b>	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures, in order to assure that contractor complies with some requirements.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13) of OMB Common Rules.
<b>RECOMMENDATION</b>	We recommend management to update contract model according with the federal requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-06</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our waiting list test we noted that the list did not contain the required information to assure that the selection of new tenants admitted to the program where in accordance with the Public Housing Agency tenant selection policies.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart E, Section 982.204 (b) stated that the waiting list that the <b>Municipality</b> maintains must contain the following information for each applicant listed: applicant name, family unit size, date and time of application, qualification for any ranking preference or local preference and racial or ethnic designation of the head of household.
<b>CAUSE</b>	<b>Municipality</b> does not maintain the complete information on the waiting list and does not guarantee the correct selection of the applicants.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart E, Section 982.204 (b).
<b>RECOMMENDATION</b>	We recommend management to revise the waiting list and complete it according to regulation.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-07</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our Participant Files Test we noted that six (6) participants' file do not have a unit inspection report.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (a) stated that the <b>Municipality</b> must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. Also 24 CFR, Subpart D, Section 982.158 (d) stated that the <b>Municipality</b> must prepare unit inspection reports.
<b>CAUSE</b>	<b>Municipality</b> does not prepare an inspection report in order to document the required annual Housing Quality Standards Inspections and quality control re-inspections.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart D, Section 982.158 (a) and Section 982.158 (d).
<b>RECOMMENDATION</b>	We recommend management to document the Housing Quality Standards Inspections as established under federal regulation.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-08</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our verification of units with failed Housing Quality Standards Inspections we noticed that the <b>Municipality</b> does not establish the correction period in the document submitted to the person responsible for the repairs in four (4) participant's files. Also, we noticed that in one (1) participant's files was no evidence of an unit inspection report or other verification documenting that any PHA required repairs were completed.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.404 stated that the <b>Municipality</b> must not make any housing assistance payments for a dwelling unit that fails to meet the Housing Quality Standards, unless the responsible person (owner and/or participant) correct the defect within the period specified by the <b>Municipality</b> and the <b>Municipality</b> verifies the correction.
<b>CAUSE</b>	<b>Municipality</b> does not specified the times frames for the correction of the deficiencies, also the entity does not verified the correction of the Housing Quality Standards deficiencies; therefore, the <b>Municipality</b> fails to take prompt and vigorous action to enforce the owner and/or participants obligations.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart I, Section 982.404.
<b>RECOMMENDATION</b>	We recommend to management to implement internal control procedures to establish a correction time period to assure that the units Housing Quality Standards deficiencies were corrected during the specified period established by the federal regulation.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-09</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our Participant Files Test we noted in two (2) participants' file that the unit failed the initial inspection and the participants occupied the unit although the unit does not satisfy the Housing Quality Standards.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.405 (a) stated that the <b>Municipality</b> must inspect the unit leased to a family prior to the initial term of the lease. Also. Code of Federal Regulations, 24 CFR, Subpart D, Section 982.305 (b)(1)(I) stated that before the beginning of the initial term of the lease the <b>Municipality</b> must inspect the unit to determine that the unit satisfy the Housing Quality Standards.
<b>CAUSE</b>	<b>Municipality</b> does not conduct initial inspections as required by the federal regulation.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart D, Section 982.405 (a) and Section 982.305 (b)(1)(I).
<b>RECOMMENDATION</b>	We recommend management to conduct the Housing Quality Standards Inspections as established under federal regulation.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-10</b>
<b>FEDERAL PROGRAM</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our Participant Files Test of Housing Rehabilitation, we noticed that five (5) participant files did not have an initial (preliminary) unit inspection.
<b>CRITERIA</b>	The Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs, the pass-through entity, stated that the <b>Municipality</b> has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitated under the criteria of the program.
<b>CAUSE</b>	<b>Municipality</b> did not conduct an initial unit inspection in order to document if the participant unit is eligible to be rehabilitated under the Housing Rehabilitation criteria.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
<b>RECOMMENDATION</b>	We recommend management to implement adequate procedures in order to comply with this pass-through entity requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**END OF SCHEDULE**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(1) Audit Findings that have been Fully Corrected:**

**FISCAL YEAR 2002**

**Finding Number**      02-III-01      **Allowed Cost/ Cost Principles**  
**Municipality** did not maintain adequate control over the record keeping of documents that justify the disbursement.

**CFDA Number**      14.228

**Questioned Cost**      None

**Auditee Comments**      System and procedures are corrected.

**Finding Number**      02-III-06      **Equipment and Real Property Management**  
**Municipality** does not maintain an appropriate real property record as required by federal regulation.

**CFDA Number**      14.228

**Questioned Cost**      None

**Auditee Comments**      System and procedures are corrected.

**Finding Number**      02-III-08      **Reporting**  
**Municipality** does not maintain complete and accurate accounts and other records for the program.

**CFDA Number**      14.871

**Questioned Cost**      None

**Auditee Comments**      System and procedures are corrected.

**FISCAL YEAR 2001**

**Finding Number**      01-III-01      **Allowed Cost/ Cost Principles**  
**Municipality** did not maintain adequate control over the record keeping of documents that justify the disbursement.

**CFDA Number**      14.228

**Questioned Cost**      None

**Auditee Comments**      System and procedures are corrected.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(1) Audit Findings that have been Fully Corrected: (continuation)**

<b>Finding Number</b>	<b>01-III-08</b>	<b>Equipment and Real Property Management</b> Municipality did not maintain appropriate real property records.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		System and procedures are corrected.
<b>Finding Number</b>	<b>01-III-12</b>	<b>Reporting</b> Municipality did not update with participant's current information the Family reports.
<b>CFDA Number</b>	14.855-14.857	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		System and procedures are corrected.
<b>FISCAL YEAR 2000</b>		
<b>Finding Number</b>	<b>00-III-02</b>	<b>Allowed Cost/ Cost Principles</b> Control over the record keeping of documents that justify the disbursement.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		System and procedures are corrected.
<b>Finding Number</b>	<b>00-III-11</b>	<b>Procurement Standards</b> No evidence for at least three qualified quotations or formal bid.
<b>CFDA Number</b>	14.228; 83.544	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		System and procedures are corrected.
<b>FISCAL YEAR 1999</b>		
<b>Finding Number</b>	<b>99-III-05</b>	<b>Reporting</b> Municipality did not maintain a current and complete general ledger.
<b>CFDA Number</b>	14.855 - 14.857 83.544	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		System and procedures are corrected.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(2) Audit Findings not Corrected or Partially Corrected:**

**FISCAL YEAR 2002**

<b>Finding Number</b>	<b>02-III-02</b>	<b>Davis- Bacon Act</b> Municipality did not develop a monitoring system to the contractors.
<b>CFDA Number</b>	14.288	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		We will develop the monitoring system and assign to an employee the responsibility to obtaining contractor's payrolls and perform the interviews in accordance with this requirement.
<b>Finding Number</b>	<b>02-III-03</b>	<b>Eligibility</b> HUD- approved release and consent forms submitted by the family.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Mayor gave instruction to Section 8 Coordinator to obtain the HUD-approved release and consent forms.
<b>Finding Number</b>	<b>02-III-04</b>	<b>Eligibility</b> No third party verification regarding family income and composition of the tenant's files.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Mayor gave instruction to Section 8 Coordinator to perform the third party verification regarding family income and composition.
<b>Finding Number</b>	<b>02-III-05</b>	<b>Eligibility</b> Tenant files did not contain any evidence of the deeds to the property.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Mayor gave instruction to Section 8 Coordinator to obtain the deeds of the property's owners.
<b>Finding Number</b>	<b>02-III-07</b>	<b>Procurement Standards</b> Missing contracts' clauses.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Instruction were given to Federal Program Director to update contract model according with the federal requirements.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(2) Audit Findings not Corrected or Partially Corrected: (continuation)**

<b>Finding Number</b>	<b>02-III-09</b>	<b>Special Test and Provisions</b> Missing initial (preliminary) unit inspection.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	Instruction were given to Section 8 Coordinator to update participant files with initial inspection report.	
<b>Finding Number</b>	<b>02-III-10</b>	<b>Special Test and Provisions</b> The waiting list did not contain the required information to assure compliance with selection policies.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	Instruction was given to Section 8 Coordinator to revise the waiting list and complete it in accordance to regulation.	
<b>Finding Number</b>	<b>02-III-11</b>	<b>Special Test and Provisions</b> No evidences of the determination of reasonableness of rent payment.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	Instruction was given to Section 8 Coordinator to document the determination of rent payment.	
<b>Finding Number</b>	<b>02-III-12</b>	<b>Special Test and Provisions</b> Participant files did not have a unit inspection report.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	Instruction was given to Section 8 Coordinator to update participant files with inspection report.	
<b>Finding Number</b>	<b>02-III-13</b>	<b>Special Test and Provisions</b> No documentation of the correction period for the repairs.
<b>CFDA Number</b>	14.871	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	Instruction was given to Section 8 Coordinator to document the correction period for the repairs.	

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(2) Audit Findings not Corrected or Partially Corrected: (continuation)**

**Finding Number**      **02-III-14**      **Special Test and Provisions**  
 No evidence of an initial unit inspection report. Also, no evidence of the initial inspection and occupation the unit without satisfy of the Housing Quality Standards.

**CFDA Number**      14.871

**Questioned Cost**      None

**Auditee Comments**      Instruction was given to Section 8 Coordinator to document initial unit inspection report and compliance with Housing Quality Standards before occupation of the unit.

**FISCAL YEAR 2001**

**Finding Number**      **01-III-02**      **Allowable Cost/ Cost Principles**  
 Missing documents that justify the disbursement.

**CFDA Number**      83.544

**Questioned Cost**      \$3,570

**Auditee Comments**      Pending of final determination of questioned costs.

**Finding Number**      **01-III-04**      **Davis-Bacon Act**  
**Municipality** did not develop a monitoring system to the contractors.

**CFDA Number**      14.228

**Questioned Cost**      None

**Auditee Comments**      See Finding Number 02-III-02.

**Finding Number**      **01-III-05**      **Eligibility**  
 HUD- approved release and consent forms submitted by the family.

**CFDA Number**      14.855 – 14.857

**Questioned Cost**      None

**Auditee Comments**      See Finding Number 02-III-03.

**Finding Number**      **01-III-06**      **Eligibility**  
 No third party verification regarding family income and composition of the tenant's files.

**CFDA Number**      14.855 – 14.857

**Questioned Cost**      None

**Auditee Comments**      See Finding Number 02-III-04.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**(2) Audit Findings not Corrected or Partially Corrected: (continuation)**

<b>Finding Number</b>	<b>01-III-11</b>	<b>Procurement Standards</b> Missing contracts' clauses.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-07.
<b>Finding Number</b>	<b>01-III-15</b>	<b>Special Test and Provisions</b> Participant files did not have a unit inspection report. No documentation of the correction period for the repairs.
<b>CFDA Number</b>	14.855- 14.857	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Numbers 02-III-09 and 02-III-13.
<b>Finding Number</b>	<b>01-III-16</b>	<b>Special Test and Provisions</b> Participant's files did not have a unit inspection report.
<b>CFDA Number</b>	14.855-14.857	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-09.
<b>Finding Number</b>	<b>01-III-17</b>	<b>Special Test and Provisions</b> The waiting list did not contain the required information to assure compliance with selection policies.
<b>CFDA Number</b>	14.855-14.857	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-10.
<b>Finding Number</b>	<b>01-III-19</b>	<b>Special Test and Provisions</b> Participant files did not have the initial (preliminary) unit inspection.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-09.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(2) Audit Findings not Corrected or Partially Corrected: (continuation)**

**FISCAL YEAR 2000**

<b>Finding Number</b>	<b>00-III-05</b>	<b>Allowed Cost – Cost Principles</b> Municipality did not maintain adequate control over the record keeping of documents that justify the disbursement.
<b>CFDA Number</b>	83.544	
<b>Questioned Cost</b>	<b>\$31,800</b>	
<b>Auditee Comments</b>		Pending of final determination of questioned costs.
<b>Finding Number</b>	<b>00-III-08</b>	<b>Davis-Bacon Act</b> Municipality did not develop a monitoring system to the contractors.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-02.
<b>Finding Number</b>	<b>00-III-09</b>	<b>Eligibility Test</b> HUD- approved release and consent forms submitted by the family.
<b>CFDA Number</b>	14.855-14.857	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-03.
<b>Finding Number</b>	<b>00-III-10</b>	<b>Procurement Standards</b> Missing contracts' clauses.
<b>CFDA Number</b>	14.228	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-07.
<b>Finding Number</b>	<b>00-III-13</b>	<b>Special Test and Provisions</b> The waiting list did not contain the required information to assure compliance with selection policies.
<b>CFDA Number</b>	14.855-14.857	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		See Finding Number 02-III-10.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**(2) Audit Findings not Corrected or Partially Corrected: (continuation)**

**Finding Number**      01-III-19      **Special Test and Provisions**  
Participants' files did not have a unit inspection report.

**CFDA Number**      14.855-14.857

**Questioned Cost**      None

**Auditee Comments**      See Finding Number 02-III-09.

**FISCAL YEAR 1999**

**Finding Number**      99-III-02      **Davis-Bacon Act**  
**Municipality** did not develop a monitoring system to the contractors.

**CFDA Number**      14.228

**Questioned Cost**      None

**Auditee Comments**      See Finding Number 02-III-02.

**Finding Number**      99-III-04      **Procurement Standards**  
Missing contracts' clauses.

**CFDA Number**      14.228

**Questioned Cost**      None

**Auditee Comments**      See Finding Number 02-III-07.

**(3) Corrective action taken is significantly different from corrective action previously reported:**

NONE

**(4) Audit findings is no longer valid:**

**FISCAL YEAR 2000**

**Finding Number**      00-III-01      **Activities Allowed or Unallowed- Allowed Cost**  
**Municipality** files by project (DSR) were not maintained as required by the Office of Governor Authorized Representative.

**CFDA Number**      83.544

**Questioned Cost**      None

**Auditee Comments**      More than two (2) years are past without final determination of GAR.

**END OF SCHEDULE**