

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

MUNICIPIO DE SAN LORENZO
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

2-9-05

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

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2004

(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, 2004
(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 fiscal year ended June 30, 2004, which collectively comprise the **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these basic combined 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, 2004, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the **Municipality's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13, and 31 and 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

INDEPENDENT AUDITORS' REPORT

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 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, 2007

Caguas, Puerto Rico
December 17, 2004



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, 2004. 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's total net assets for 2003 was \$18,221,019 and for 2004 is \$22,380,952, an increase of \$4,138,882. The key factor in this increase was additional revenues that were restricted by the Municipality for capital projects.
- The total of net assets is made up of \$18,296,252 in capital assets net of related debt, and 4,084,000 in other net assets.
- As of the close of the current fiscal year, the Municipality's Governmental Fund reported combined ending fund balance of \$6,519,359, an increase of \$66,341 in comparison with the prior year.
- The unreserved fund balance of the General Fund reflected a decrease of \$1,331,561 in comparison with the prior year. This decrease is attributed to payments of claims with current resources. The Municipality issued a general obligation bond to finance the amount of \$1,915,000 for the lawsuit that was paid during this and next fiscal years.
- On a budgetary basis, actual expenditures exceed actual revenues by \$544,038.

USING THIS ANNUAL REPORT

This annual report consists of three components:

- Management's Discussion and Analysis (this section),
- Basic Financial Statements
- Required Supplementary Information.

The Basic Financial Statements include two kinds of statements that present different views of the Municipality as follows:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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Government-wide Statements (Reporting the Municipality as Whole)

The Statement of Net Assets and Statement of Activities are two financial statements that report information about the Municipality, as a whole, and about its activities similar to a private-sector business. These statements provide both short-term and long-term information about the Municipality's economic condition at the end of the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include two statements:

The Statement of Net Assets presents all the Municipality's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets is an indicator of whether the Municipality's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets change during the most recent fiscal year. All the changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements (Reporting the Municipality's Major Funds)

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 reporting model's) fund types. The Major Fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The fund financial statements provide detailed information about the Major Individual Funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts the Municipality uses to keep track of specific sources of funding and spending for a particular purpose. The Municipality's funds are all included in Governmental Funds. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statements allows the demonstration of sources and uses and/or budgeting compliance associated therewith.

Governmental Funds – the entire Municipality's basic service are reported in the governmental funds, which focus in how money flows into out of those funds and the balances left at year-end that are available for future spending. Consequently, the governmental fund financial statements provide a detailed short-term view of the Municipality general information, general operation and the basis service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs.

These funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Under this method, revenues are recognized when measurable and available. Expenditures and generally recognized when the related fund liability is incurred. This is the manner in which these funds are normally budgeted.

**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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Since the governmental fund statements (current financial resources) are presented on a different measurement focus and basis of accounting than governmental-wide statements (total economic resources), a reconciliation of the differences are reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the Governmental Activities column (in the Government-Wide Statements).

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the financial statements can be found on pages 20 to 30 of this report.

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 in 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 the current year infrastructure assets. 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, 2004

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

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 \$22,359,900 at the end of 2004, compared to net assets (excess of assets over liabilities) \$18,221,019 at the end of the previous year.

**Condensed Statement of Net Assets
June 30,**

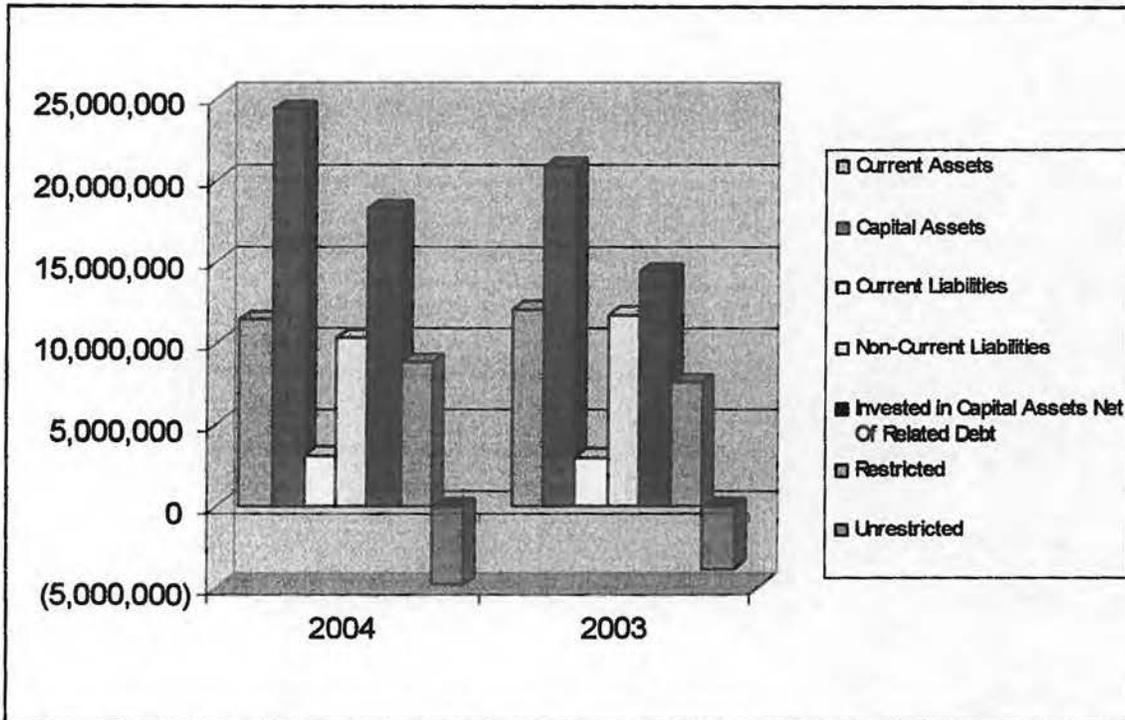
	<u>2004</u>	<u>2003</u>
Current assets	\$11,489,470	\$12,114,550
Capital assets	<u>24,321,952</u>	<u>20,875,070</u>
Total assets	<u>35,811,022</u>	<u>32,989,620</u>
Current liabilities	3,135,668	3,027,838
Noncurrent liabilities	<u>10,315,454</u>	<u>11,740,763</u>
Total liabilities	<u>13,451,122</u>	<u>14,768,601</u>
Invested in capital assets, net of related debt	18,296,952	14,410,070
Restricted	8,837,589	7,609,481
Unrestricted	<u>(4,774,641)</u>	<u>(3,798,532)</u>
Total net assets	<u>\$22,359,900</u>	<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, 2004

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The Municipality's total net assets increase by \$4,159,933. The key factor in this increase was revenues received from prior year collections of the Municipal Revenue Collection Center and the Puerto Rico Electric Power Authority that were restricted by the Municipality for capital projects and approval of operating and capital grants by the State legislature. Also there was an increase in revenues of \$688,833 levied from construction taxes.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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Changes in Net Assets

Approximately 38 percent of the Municipality's total revenue came from taxes, while 62 percent resulted from grants and contributions, including federal aid. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, health and welfare, sanitation and culture and recreation.

**Condensed Statement of Activities
June 30, 2004**

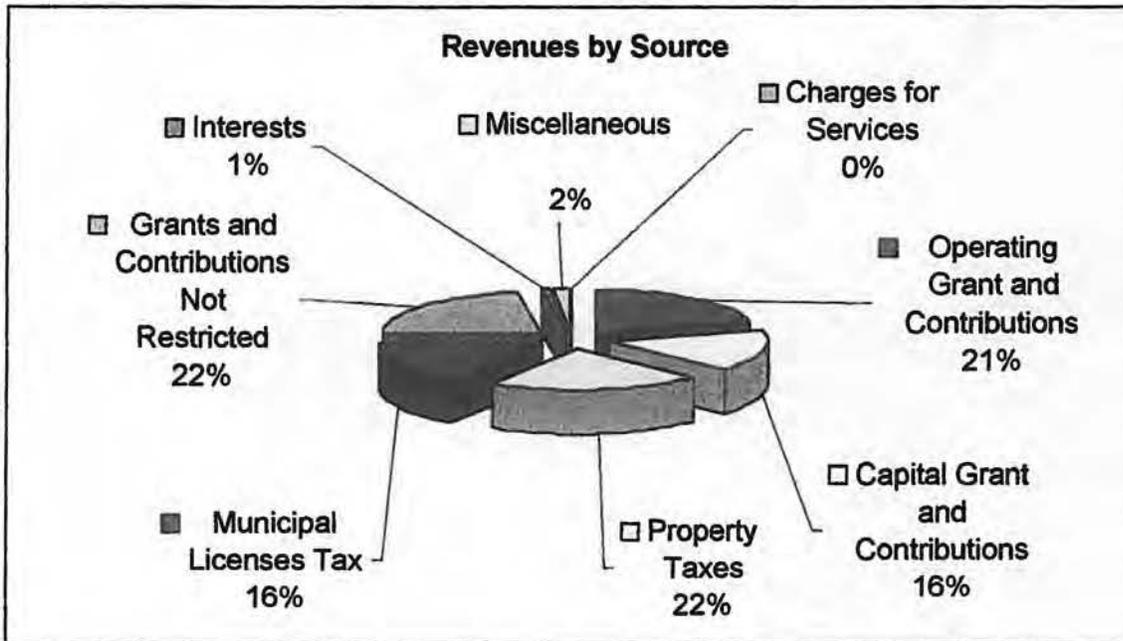
	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services	\$ -	\$38,400
Operating grants and contributions	3,934,297	2,636,760
Capital grants and contributions	2,920,479	673,401
General revenues:		
Property taxes	4,034,144	3,382,938
Municipal license tax	2,996,074	2,134,164
Grants and contributions not restricted to specific programs	4,199,718	11,723,456
Interest and investment earnings	125,945	140,584
Miscellaneous	<u>316,053</u>	<u>875,825</u>
Total revenues	<u>\$18,526,710</u>	<u>\$21,605,524</u>
Expense:		
General government	8,113,405	7,327,887
Public safety	670,484	691,232
Public works	1,330,921	1,734,457
Culture and recreation	606,004	724,044
Health and welfare	1,314,612	2,580,649
Community development	507,936	583,272
Economic development	-	449,930
Interest on long-term debt	391,240	313,236
Sanitation	<u>1,453,226</u>	<u>1,330,012</u>
Total expenses	<u>14,387,828</u>	<u>15,734,719</u>
Change in net assets	4,138,882	5,870,805
Net assets, beginning of year	<u>18,221,018</u>	<u>12,350,214</u>
Net assets, end of year	<u>\$22,359,900</u>	<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, 2004

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Operating and capital grant increased by \$3,544,615. This increase is the result of local grants approved by the state legislature.

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 \$6,519,359, an increase of \$66,341 in comparison with the prior year. There are reservations of fund balance amounting to \$7,542,973. 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 \$539,427, 2) to pay debt service \$790,221, 3) to pay for CDBG 296,180 to pay Loan Funds \$1,558,067, \$2,472,511 for state assignment and 4) for other purposes \$1,886,567.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of \$(1,023,614). This decrease is attributed to payments of claims with current resources. The Municipality issued a general obligation bond to finance the amount of \$1,915,000 for the lawsuit that was paid during this and next fiscal years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net increase or decrease in fund balances for each of the major governmental funds for the fiscal year ended June 30, 2004.

Major Governmental Funds	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Net Increase (Decrease) in Fund Balance
General Fund	\$11,226,447	\$12,569,266	\$(1,342,819)
Loan Fund	-	1,707,892	(1,707,892)
Debt Services Fund	1,387,207	1,092,304	294,903
CDBG Fund	1,319,193	1,025,985	293,208
State Assignment Fund	2,920,479	1,110,884	1,809,595
Other Fund	<u>4,421,108</u>	<u>3,701,712</u>	<u>719,396</u>
Total	<u>\$21,274,434</u>	<u>\$21,208,043</u>	<u>\$ 66,341</u>

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$370,725 and can be summarized as increases in other revenues.

Actual revenues in fiscal year 2004 increased by \$454,895. The differences in actual versus projected revenues were due primarily to two factors: 1) excess of contribution in lieu of tax of Puerto Rico Energy Power Authority for fiscal year 2002-2003 2) excess of property tax revenues over advances from Municipal Revenue Collection Center (CRIM) for fiscal year 2002-2003.

During the year 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, 2004, amounts to \$29,209,534, net of accumulated depreciation of \$4,887,582, leaving a net book value of \$24,321,952. 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. Depreciation charges for the year totaled \$841,823.

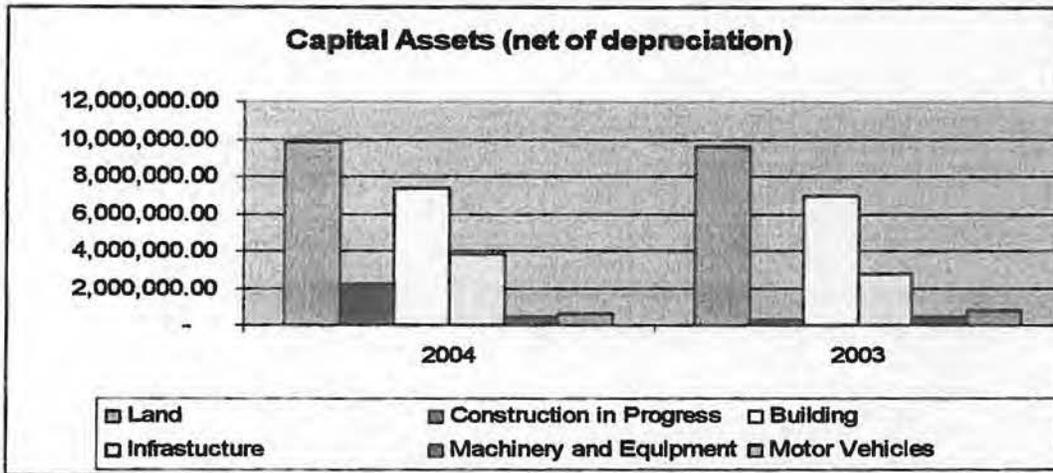
The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004, the Municipality has \$1,558,067 of unexpended proceeds from bond issuances that are committed to future construction activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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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.

**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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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 grants funding was approved from the federal transit administration to assist in financing the planning, construction and improvement of facilities in mass transportation services. Also the Municipality requested a Loan guaranteed by Department of Housing and Urban Development under Section 108 for the construction and development of a Municipal Activity Center which includes a convention center, movie theaters and a bowling center.

Those factors were considered when preparing the Municipality's budget for the 2004-2005 fiscal year.

CONTACTING THE MUNICIPALITY'S OFFICE OF FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finance Department at (787) 736-3511.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments.....	\$ 5,398,549
Cash with Fiscal Agent.....	3,479,336
Receivables (net):	
Property Taxes	27,409
Federal Grants.....	2,429,972
Others.....	<u>153,804</u>
Capital Assets (Note 1 & 6):	
Land, Improvements, and Construction in Progress.....	12,038,544
Other Capital Assets, [Net of Depreciation]	<u>12,283,408</u>
Total Capital Assets.....	<u>24,321,952</u>
TOTAL ASSETS.....	<u>35,811,022</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses.....	1,481,257
Accrued Interest	172,091
Due to Governmental Units	52,469
Deferred Revenue	1,429,851
Long-Term Liabilities (Note 7):	
Due within One Year	1,684,774
Due in More than One Year.....	<u>8,630,680</u>
Total Liabilities.....	<u>13,451,122</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	18,296,952
Restricted for:	
Debt Service	790,221
Community Development Projects.....	2,026,196
Other Purposes.....	6,021,172
Unrestricted (Deficit).....	<u>(4,744,641)</u>
TOTAL NET ASSETS	<u>\$22,359,900</u>

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, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,446,383	\$ -	\$ -	\$ -	(\$ 1,446,383)
General Government	6,667,022	-	1,217,698	-	(5,449,324)
Public Safety	670,484	-	26,774	-	(643,710)
Public Works	1,330,921	-	456,369	2,765,000	1,890,448
Health and Welfare	1,314,612	-	998,885	155,479	(160,248)
Culture and Recreation	606,004	-	900	-	(605,104)
Sanitation	1,453,226	-	-	-	(1,453,226)
Urban Development	507,936	-	1,233,671	-	725,735
Interest on Long-Term Debt	391,240	-	-	-	(391,240)
Total Governmental Activities	<u>\$14,387,828</u>	<u>\$ -</u>	<u>\$ 3,934,297</u>	<u>\$ 2,920,479</u>	<u>(7,533,052)</u>
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					2,970,059
Property Taxes, levied for Debt Service					1,064,085
Volume of Business Taxes					1,706,394
Construction Taxes					1,289,680
Intergovernmental					4,320,354
Rent					5,309
Miscellaneous					<u>316,053</u>
Total General Revenues					<u>11,671,934</u>
CHANGE IN NET ASSETS					4,138,882
Net Assets – Beginning of Year					<u>18,221,018</u>
NET ASSETS – ENDING OF YEAR					<u>\$22,359,900</u>

See accompanying Notes to Basic Financial Statements.

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

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2004

	<u>GENERAL</u>	<u>LOAN FUND</u>	<u>DEBT SERVICE FUND</u>	<u>CDBG FUND</u>	<u>STATE ASSIGNMENT FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS							
Cash and Investments (Note 2)	\$ 2,046,103	\$ -	\$ -	\$ 176	\$ 2,274,400	\$ 1,077,870	\$ 5,398,549
Cash with Fiscal Agent	-	1,721,401	1,362,406	-	-	395,529	3,479,336
Receivables:							
Property Taxes (Note 3)	-	-	27,409	-	-	-	27,409
Federal Grants	-	-	-	2,195,571	-	234,401	2,429,972
Due from Other Funds (Note 4)	570,182	-	-	-	707,526	680,000	1,957,708
Others	-	-	-	-	-	153,804	153,804
Total Assets	<u>\$ 2,616,285</u>	<u>\$ 1,721,401</u>	<u>\$ 1,389,815</u>	<u>\$ 2,195,747</u>	<u>\$ 2,981,926</u>	<u>\$ 2,541,604</u>	<u>\$13,446,778</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 415,331	\$ -	\$ 425,000	\$ 120,011	\$ 509,415	\$ 11,500	\$ 1,481,257
Accrued Interest	-	-	172,091	-	-	-	172,091
Due to Governmental Units (Note 5) ...	52,469	-	-	-	-	-	52,469
Due to Other Funds (Note 4)	1,202,821	163,334	2,503	49,540	-	539,510	1,957,708
Deferred Revenues:							
Volume of Business Tax	1,429,851	-	-	-	-	-	1,429,851
Federal Grants	-	-	-	1,730,016	-	104,027	1,834,043
Total Liabilities	<u>3,100,472</u>	<u>163,334</u>	<u>599,594</u>	<u>1,899,567</u>	<u>509,415</u>	<u>655,037</u>	<u>6,927,419</u>
Fund Balances:							
Reserve For:							
Encumbrances	539,427	-	-	-	-	-	539,427
Debt Service	-	-	790,221	-	-	-	790,221
Other Purposes	-	1,558,067	-	296,180	2,472,511	1,886,567	6,213,325
Unreserved (Deficit) (Note 1 N)	(1,023,614)	-	-	-	-	-	(1,023,614)
Total Fund Balances	<u>(484,187)</u>	<u>1,558,067</u>	<u>790,221</u>	<u>296,180</u>	<u>2,472,511</u>	<u>1,886,567</u>	<u>6,519,359</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,616,285</u>	<u>\$ 1,721,401</u>	<u>\$ 1,389,815</u>	<u>\$ 2,195,747</u>	<u>\$ 2,981,926</u>	<u>\$ 2,541,604</u>	<u>\$13,446,778</u>

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, 2004

Total Fund Balances – Governmental Funds (Page 16) \$ 6,519,359

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 14) 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:

Non-Depreciable Assets	\$12,038,544	
Depreciable Capital Assets	17,170,990	
Accumulated Depreciation	<u>(4,887,582)</u>	
Total Capital Assets		24,321,952

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:

Child Care	104,027	
CDBG	<u>1,730,016</u>	
Total Deferred Revenues		1,834,043

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

Bonds and Notes Payable	(6,577,190)	
Compensated Absences	(973,940)	
Other Long-Term Debts	(1,509,227)	
Claims	<u>(1,255,097)</u>	
Total Long-Term Liabilities		<u>(10,315,454)</u>

Total Net Assets of Governmental Activities (Page 14)..... \$22,359,900

**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, 2004

	GENERAL	LOAN FUND	DEBT SERVICE FUND	CDBG FUND	STATE ASSIGNMENT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Property Taxes	\$ 3,432,992	\$ -	\$ 1,064,085	\$ -	\$ -	\$ -	\$ 4,497,077
Volume of Business Taxes	1,706,394	-	-	-	-	-	1,706,394
Federal Assistances	-	-	-	1,319,193	2,920,479	1,394,394	5,634,066
Intergovernmental	4,320,354	-	-	-	-	1,401,762	5,722,116
Licenses and Permits	1,289,680	-	-	-	-	-	1,289,680
Rent	5,309	-	-	-	-	-	5,309
Miscellaneous	471,718	-	-	-	-	-	471,718
Total Revenues.....	<u>11,226,447</u>	<u>-</u>	<u>1,064,085</u>	<u>1,316,193</u>	<u>2,920,479</u>	<u>2,796,156</u>	<u>19,326,360</u>
EXPENDITURES							
Current:							
Mayor and Municipal Legislature.....	1,105,235	-	-	-	-	-	1,105,235
General Government	5,604,661	-	-	-	-	1,844,836	7,449,497
Public Safety	566,833	-	-	-	-	9,757	576,590
Public Works	1,296,181	-	-	-	967,031	592,591	2,855,803
Human Services and Welfare.....	-	-	-	-	143,853	1,167,817	1,311,670
Culture and Recreation.....	540,682	-	-	-	-	11	540,693
Sanitation	1,453,226	-	-	-	-	-	1,453,226
Urban Development.....	54,036	1,707,942	-	1,025,985	-	-	2,787,963
Capital Outlay	87,038	-	-	-	-	-	87,038
Debt Service:							
Principal	-	-	701,064	-	-	-	701,064
Interest and Other Charges	-	-	391,240	-	-	-	391,240
Total Expenditures.....	<u>10,707,892</u>	<u>1,707,942</u>	<u>1,092,304</u>	<u>1,025,985</u>	<u>1,110,884</u>	<u>3,615,012</u>	<u>19,260,019</u>
OTHER FINANCING SOURCES (USES)							
Transfers – In.....	-	-	323,122	-	-	1,624,952	1,948,074
Transfers – Out.....	(1,861,374)	-	-	-	-	(86,700)	(1,948,074)
Total Other Financing Sources and Uses	<u>(1,861,374)</u>	<u>-</u>	<u>323,122</u>	<u>-</u>	<u>-</u>	<u>1,538,252</u>	<u>-</u>
Net Change in Fund Balances.....	(1,342,819)	(1,707,942)	294,903	293,208	1,809,595	719,396	66,341
Fund Balance – Beginning.....	858,632	3,266,009	495,318	2,972	662,916	1,167,171	6,453,018
FUND BALANCES (DEFICIT), ENDING	<u>(\$ 484,187)</u>	<u>\$ 1,558,067</u>	<u>\$ 790,221</u>	<u>\$ 296,180</u>	<u>\$ 2,472,511</u>	<u>\$ 1,886,567</u>	<u>\$ 6,519,359</u>

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, 2004

Net Change in Fund Balances – Total Governmental Funds (Page 19) \$ 66,341

Amounts reported for Governmental Activities in the Statement of Activities (Page 15)
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:

Urban Development	\$ 4,288,705	
Depreciation Expense	<u>(841,823)</u>	
Excess of Capital Outlay over Depreciation Expense		3,446,882

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

CDBG	(85,522)	
Child Care	(95,530)	
Municipal Revenue Collection Center	(462,933)	
Puerto Rico Electric Power Authority	<u>(155,665)</u>	(799,650)

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. 1,556,821

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		<u>(131,512)</u>
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Change in Net Assets of Governmental Activities (Page 15) \$ 4,138,882

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 fiscal year 2002-2003: 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*, GASBS No. 39, *Determining Whether Certain Organizations Are Component Units*, GASBS No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASBS 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. The basic financial statements are presented as of June 30, 2004, 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, as amended by GASBS No. 39.

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, 2004, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Measurement Focus and Basis of Accounting (continuation)

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.

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, 2004, 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**) 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.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Financial Statement Presentation (continuation)

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.

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.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primarily objectives of these assignments is

the development of projects on communities, not-for-profit organizations, purchase of equipment and indirect assignment to 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.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

D. Budgetary Data (continuation)

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.

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.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

H. Capital Assets (continuation)

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
Motor Vehicles, furniture and fixtures	5
Machinery and Equipments	3-5

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).

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2004 (Table 2).

Table 2					
BALANCE JULY 1, 2003	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2004	CURRENT PORTION	LONG-TERM PORTION
\$842,428	\$131,512	\$ -	\$973,940	\$692,856	\$ 81,084

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.

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 debt service and other specific purposes are examples of the latter.

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.

N. Deficit Fund Balance

Fund Deficit in the General Fund is primarily attributable to payment of claims and judgments in the amount of \$1,920,000 (see Note 7). The deficit is eliminated by an Special Obligation Bond with Government Development Bank of Puerto Rico for the amount of \$1,915,000 to finance the payment of claims and judgments (see Note 14).

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

O. 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, which are uninsured and uncollateralized.

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, 2004, 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	1.875%	07-03-04
Oriental Bank	131006407	<u>400,000</u>	1.550%	08-23-04
TOTAL		<u>\$800,000</u>		

The investments are included in the General Fund.

NOTE 3 OTHERS RECEIVABLES

As of June 30, 2004, 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	\$ 323,122	Debt payment
General Fund	Other Fund	1,538,252	Specific project funding
Other Fund	Other Fund	<u>86,700</u>	Specific project funding
Total		<u>\$1,948,074</u>	

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2004 are summarized as follows: (See Table 5)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 5 AMOUNT
General Fund	Debt Service Fund	\$ 2,503
General Fund	Other Fund	518,139
Other Fund	General Fund	495,295
State Assignment Fund	General Fund	707,526
Other Fund	Loan Fund	163,334
Other Fund	Other Fund	21,371
General Fund	CDBG Fund	<u>49,540</u>
TOTAL		<u>\$1,957,708</u>

NOTE 5 DUE TO GOVERNMENTAL UNITS

As of June 30, 2004, 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
General Service Administration	\$ 4,532
Retirement System Administration	45,746
AEELA	<u>2,191</u>
Total Due to Governmental Units	<u>\$52,469</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2004 was as follows (See Table 7)

TABLE 7	BALANCE JULY 1, 2003	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2004
Non-Depreciable Capital Assets:				
Land	\$ 9,600,685	\$ 230,800	\$ -	\$ 9,831,485
Construction in Progress	306,886	1,900,173	-	2,207,059
Total Non-Depreciable Capital Assets	<u>9,907,571</u>	<u>2,130,973</u>	-	<u>12,038,544</u>
Depreciable Capital Assets:				
Buildings	8,947,996	656,439	-	9,604,435
Infrastructure	2,770,289	1,296,270	-	4,066,559
Machinery and Equipment	1,801,113	170,528	-	1,971,641
Motor Vehicles	1,493,860	34,495	-	1,528,355
Total Depreciable Capital Assets	<u>15,013,258</u>	<u>2,157,732</u>	-	<u>17,170,990</u>
Less Accumulated Depreciation:				
Buildings	(2,001,202)	(252,760)	-	(2,253,962)
Infrastructure	(47,601)	(166,593)	-	(214,194)
Machinery and Equipment	(1,334,435)	(183,413)	-	(1,517,848)
Motor Vehicles	(662,521)	(239,057)	-	(901,578)
Total Accumulated Depreciation	<u>(4,045,759)</u>	<u>(841,823)</u>	-	<u>(4,887,582)</u>
Total Depreciable Capital Assets (Net)	<u>10,967,499</u>	<u>1,315,909</u>	-	<u>12,283,408</u>
CAPITAL ASSETS, NET	<u>\$20,875,070</u>	<u>\$ 3,446,882</u>	<u>\$ -</u>	<u>\$24,321,952</u>

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

TABLE 8	AMOUNT
Mayor and Municipal Legislature	\$ 341,148
General Government	59,755
Public Safety	93,894
Public Works	235,267
Urban Development	43,506
Culture and Recreation	65,311
Health and Welfare	2,942
Total Depreciation Expenses	<u>\$ 841,823</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 send to the Municipality.

General obligations bonds and notes payable as of June 30, 2004, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$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	\$ 1,330,000
\$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	430,000
\$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	365,000
\$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 July 1, 2027; (paid through CDBG Funds)	3,885,000
Total General Obligations Bonds	<u>5,980,000</u>
Special Obligations Notes:	
\$221,269, Series 1988, for operational purposes, payable in quarterly installments of \$2,766 excluding interests at 8.00%, through July 1, 2007.	33,190

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
Special Obligations Notes:	
\$300,000, Series 1987, for construction purposes, payable in semiannual installments of \$15,000, excluding interest at 9.00%, through July 1, 2007.....	\$ 45,000
\$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, 2015	519,000
Total Special Obligations Notes.....	597,190
Total General and Special Obligations.....	<u>\$6,577,190</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, 2004 are as follows (See Table 9):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2005	\$ 601,063	\$ 387,673	\$ 988,736
2006	630,063	382,079	1,012,143
2007	191,063	342,802	533,865
2008	180,000	330,834	510,834
2009	190,000	319,822	509,822
2010-2014	1,150,000	1,407,595	2,557,595
2015-2019	1,375,000	1,006,006	2,381,006
2020-2024	1,385,000	539,409	1,924,409
2025-2027	<u>875,000</u>	<u>116,025</u>	<u>991,025</u>
TOTAL	<u>\$ 6,577,190</u>	<u>\$ 4,832,243</u>	<u>\$11,409,434</u>

B. OTHER LONG-TERM DEBTS

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

TABLE 10 DESCRIPTION	BALANCE JULY 1, 2003	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2004
Property Taxes – MRCC.....	\$ 614,433	\$ -	\$ 50,663	\$ 563,770
Property Taxes – Treasury..	202,705	-	32,879	169,826
Claims and Judgments	1,920,000	-	664,903	1,255,097
Property Taxes – Law 146..	557,721	-	35,312	522,409
Solid Waste Disposal.....	325,222	-	72,000	253,222
Compensated Absences.....	<u>842,428</u>	<u>131,512</u>	-	<u>973,940</u>
TOTAL	<u>\$ 4,462,509</u>	<u>\$ 131,512</u>	<u>\$ 855,757</u>	<u>\$ 3,738,264</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, 2004: (See Table 11)

TABLE 11 DESCRIPTION	BALANCE JULY 1, 2003	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2004	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 6,275,000	\$ -	\$ 295,000	\$ 5,980,000	\$ 320,000	\$ 5,660,000
Special.....	1,003,254	-	406,063	597,190	281,063	316,127
Others Debts..	<u>4,462,509</u>	<u>131,512</u>	<u>855,757</u>	<u>3,738,264</u>	<u>1,083,711</u>	<u>2,654,553</u>
TOTAL	<u>\$11,740,763</u>	<u>\$ 131,512</u>	<u>\$ 1,556,820</u>	<u>\$10,315,454</u>	<u>\$ 1,684,774</u>	<u>\$ 8,630,680</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, 2004

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, 2004, the Debt Service Fund presented a receivable of \$27,409 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, 2004

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 2004 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, 2004 was approximately \$234,697 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, 2004. 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 one (1) lawsuit related to personnel matter and back pay, to which the legal counsel informed a loss of \$1,255,097. Other lawsuit for \$650,000 was paid during this fiscal year.

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.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 SUBSEQUENT EVENTS

The Government Development Bank of Puerto Rico approved a Special Obligation Bond for the amount of \$1,915,000 to finance the payment of claims and judgments (see Note 13).

NOTE 15 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal year beginning after December 15, 2004. Early application is encouraged. The **Municipality** has not adopted the requirement of this statement. Other two pronouncements are issued (GASBS Nos. 43 (Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans) and 44 (Economic Condition Reporting: The Statistical Section), but do not apply to the **Municipality**.

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, 2004

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2003.....	\$ 383,050	\$ 383,050	\$ 383,050	\$ -
Resources (Inflows):				
Property Taxes	2,599,334	2,970,059	3,432,992	462,933
Volume of Business Taxes.....	1,668,152	1,668,152	1,706,394	38,242
Intergovernmental Revenues	4,545,234	4,545,234	4,320,162	(225,072)
License and Permits.....	1,457,932	1,457,932	1,289,680	(168,252)
Rent.....	4,703	4,703	5,309	606
Miscellaneous	<u>125,280</u>	<u>125,280</u>	<u>471,718</u>	<u>346,438</u>
Total Resources (Inflows).....	<u>10,400,635</u>	<u>10,771,360</u>	<u>11,226,255</u>	<u>454,895</u>
Amounts Available for Appropriation	<u>10,783,685</u>	<u>11,154,410</u>	<u>11,609,305</u>	<u>454,895</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	932,255	1,180,670	1,179,409	1,261
General Government.....	5,110,770	4,919,864	4,809,328	110,536
Public Safety	716,593	595,807	599,739	(3,932)
Public Works	1,104,865	1,430,432	1,426,774	3,658
Culture and Recreation	589,486	613,432	619,774	(6,342)
Sanitation	1,450,996	1,470,000	1,470,000	-
Urban Development	57,630	56,798	62,931	(6,133)
Capital Outlays.....	91,488	181,235	87,038	94,197
Transfer to Other Funds.....	<u>346,192</u>	<u>323,122</u>	<u>1,515,300</u>	<u>(1,192,178)</u>
Total Charges to Appropriations	<u>10,400,635</u>	<u>10,771,360</u>	<u>11,770,293</u>	<u>(998,933)</u>
BUDGETARY FUND BALANCE, JUNE 30, 2004	\$ 383,050	\$ 383,050	(\$ 160,988)	(\$ 544,038)

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, 2004

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

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 31).....	\$11,609,305
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.	(383,050)
Inflows accumulated as receivable under GAAP is a Current-Year Revenue for financial reporting purposes	<u>192</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$11,226,447</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 31).....	\$11,770,293
Difference – Budget to GAAP:	
Prior-Year Expenditures are not outflows of budgetary resources but are <i>expenditures</i> for financial reporting purposes.	199,810
Expenditures non budget.....	692,923
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.	(439,834)
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.	<u>(1,515,300)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 31)	<u>\$10,707,892</u>

NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2004 (See Page 31).....	(\$ 160,988)
Timing Differences:	
Net Change in Encumbrances.....	176,179
Non-budgetary Items	<u>(1,038,805)</u>
Unrestricted Fund Balance, June 30, 2004 (See Page 16)	<u>(\$ 1,023,614)</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, 2004

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 Vouchers Program	14.871	RQ037VO	\$ 531,497
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP)	14.228	03-AF-FD-58 02-AF-FD-58 01-FD-FC-58 00-FD-FC-58 98-FD-58 97-FD-58	<u>1,025,985</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,557,482</u>
U.S. Department of Justice:			
Public Safety Partnership and Community Policing Grants			
	16.710		39,922
Local Law Enforcement Block Grant	16.592		<u>9,757</u>
Total U.S. Department of Justice			<u>49,679</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>495,852</u>
U. S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant	93.575	CC-V02	<u>559,473</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,662,486</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**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, 2004

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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of San Lorenzo, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2004, which collectively comprise the **Municipality's** basic financial statements and has issued our unqualified report thereon dated December 17, 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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 weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Page 2

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, 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.

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Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2007

Caguas, Puerto Rico
December 17, 2004





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, 2004. The **Municipality's** major federal programs are identified in the summary of auditors' result 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 other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality's** compliance with those requirements.

As described in items 04-III-01 and 04-III-08 through 04-III-10 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, 2004. 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 04-III-02 through 04-III-07.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 04-III-01 through 04-III-07.

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 caused by error or fraud 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, we believe that none of the reportable conditions described above is a material weakness. However, of the reportable conditions described above we consider item 04-III-01 to be material weakness.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, 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.

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License Number 12, expires on December 1, 2007

Caguas, Puerto Rico
December 17, 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, 2004

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
83.544	Public Assistance Grant
93.575	Child Care and Development Block Grant

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, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-01
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	Municipality did not develop a monitoring system to ensure that contractors paid prevailing wages rates according to Department of Labor. This is a prior year audit finding.
CRITERIA	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.
CAUSE	Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the Act. The procedures established that the Municipality must interview the employees at the beginning, at a middle stage and at the end of the project.
EFFECT	Municipality is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
RECOMMENDATION	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.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-02
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant's File Test we noted that one (1) tenant's file did not contain evidence of unit's property deeds. Also we notice that in two (2) tenant's files the proprietor's name mentioned at the property deeds was different from those who were receiving the HAP payment. This is a prior year audit finding.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart G, Section 982.306 (d) stated that the Municipality must not approve a unit if the owner is the parent, child, grandparent, grandchild, sister, or brother of any member of the family.
CAUSE	Municipality did not implement procedures that guarantee that the family does not own or has any interest in the unit.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart G, Section 982.306 (d).
RECOMMENDATION	We recommend management to implement the necessary procedures in order to comply with program regulations.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-03
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant's File Test we noted that three (3) participant's file did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation. This is a prior year audit finding.
CRITERIA	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 Municipality 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 Municipality and to HUD such information as the Municipality and HUD determines to be necessary. Also it is stated on 24 CFR, Subpart K, Section 982.516 (g).
CAUSE	Municipality did 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.
EFFECT	Municipality 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).
RECOMMENDATION	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.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-04
FEDERAL PROGRAM	CHILD CARE AND DEVELOPMENT BLOCK GRANT (CFDA NO. 93.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY OF FUNDS
CONDITION	During our audit, we noted that the Municipality did not liquidate the current obligations as required by the pass-through entity at the grant agreement. The Municipality did not obtain an extension of the deadline, in order to pay those obligations after the end of the funding period, from the pass-through entity.
CRITERIA	Administration for the Childhood Care and Integral Development, Contract Number 123-2003-000364, states that the Municipality shall liquidate all obligations incurred under the award not later than ninety (90) after the end of the funding period.
CAUSE	Municipality is not in compliance with the requirement states in the Contract Number 123-2003-000364.
EFFECT	Municipality incurred in unallowable payments.
RECOMMENDATION	We recommend to management to implement adequate controls to assure that all obligations are paid as required by the pass-through entity.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-05
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
CONDITION	The model for construction contracts over \$10,000 used by the Municipality 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. This is a prior year audit finding.
CRITERIA	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.
CAUSE	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures, in order to assure that contractor complies with some requirements.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13) of OMB Common Rules.
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-06
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
CONDITION	During our Participant's File Test we noted that three (3) tenant's file did not contain all the contracts as required by the federal regulation. Also we noticed that in fifteen (15) tenant's files the contract was not the required HUD's word-to-word form.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.162 (a) stated that the Municipality must use program contracts and other forms required by HUD headquarters, including the HAP contract between the Municipality and the owner, and the tenancy addendum (included in the lease between the owner and the tenant and in the HAP contract). Code of Federal Regulations, 24 CFR, Subpart D, Section 982.162 (b) stated that the required program contracts and other forms must be word-to-word in the form required by HUD headquarters. Any additions or modification to those required contracts and forms must be approved by HUD headquarters.
CAUSE	Municipality did not establish procedures to ensure that all the required contracts were the HUD's word-to-word forms and that they were legalized before the housing assistance payments and/or the utility reimbursements were disbursed.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart D, Section 982.162 (a) and (b).
RECOMMENDATION	We recommend management to update contract model and to include all documentation required by the federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-07
FEDERAL PROGRAM	CHILD CARE AND DEVELOPMENT BLOCK GRANT (CFDA NO. 93.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	During our audit, we noted that the Municipality did not maintain a current and complete general ledger which adequately identifies the source and application of Child Care Program funds for the Fiscal Year 2003-2004. The accounting information was prepared after year-end.
CRITERIA	OMB Common Rules, Subpart G, 45 CFR, Section 98.67 (c) stated that fiscal control and accounting procedures must be sufficient to permit preparation of reports and the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part.
CAUSE	Municipality is not in compliance with Subpart G, Section 98.67 (c).
EFFECT	Municipality cannot adequately identify the source and application of funds.
RECOMMENDATION	We recommend management to maintain adequate and accurate accounting records.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-08
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	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 were in accordance with the Public Housing Agency tenant selection policies. This is a prior year audit finding.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart E, Section 982.204 (b) stated that the waiting list that the Municipality 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.
CAUSE	Municipality did not maintain the complete information on the waiting list and does not guarantee the correct selection of the applicants.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart E, Section 982.204 (b).
RECOMMENDATION	We recommend management to revise the waiting list and complete it according to regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-09
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant's File Test we noted that eight (8) participant's file did not have a unit inspection report. This is a prior year audit finding.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (a) stated that the Municipality 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 Municipality must prepare unit inspection reports.
CAUSE	Municipality did not prepare an inspection report in order to document the required annual Housing Quality Standards inspections and quality control re-inspections.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (a) and Section 982.158 (d).
RECOMMENDATION	We recommend management to document the Housing Quality Standards inspections as established under federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 04-III-10
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant's File Test we noted that four (4) tenant's file did not documented the determination that the rent to owner is reasonable in accordance with the Municipality's administrative plan initially and during the contract term.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (f) (7) stated that the Municipality must maintain records to document the basis for the Municipality's determination that the rent to owner is a reasonable rent (initially and during the term of the HAP contract).
CAUSE	Municipality did not implement procedures in order to document the reasonable rent to owner.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (f) (7).
RECOMMENDATION	We recommend management to document the basis for the determination that the rent to owner is a reasonable rent (initially and during the term of the HAP contract).
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	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, 2004

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

Finding Number 02-III-13 **Special Test and Provisions**
No documentation of the correction period for the repairs.

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures were corrected

Finding Number 02-III-14 **Special Test and Provisions**
No evidence of an initial unit inspection report. Also participants occupied units that failed the initial inspection; without satisfying the Housing Quality Standards.

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures were corrected

FISCAL YEAR 2001

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 System and procedures were corrected

Finding Number 01-III-15 **Special Test and Provisions**
Participant files did not have a unit inspection report. No documentation of the correction period for the repairs.

CFDA Number 14.855- 14.857

Questioned Cost None

Auditee Comments System and procedures were 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, 2004

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2003

Finding Number	03-III-01	Davis- Bacon Act Municipality did not develop a monitoring system to the contractors.
CFDA Number	14.288	
Questioned Cost	None	
Auditee Comments		We will develop the monitoring system and assign to an employee the responsibility to obtain contractor's payrolls and perform the interviews in accordance with this requirement.
Finding Number	03-III-02	Eligibility HUD- approved release and consent forms submitted by the family.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		Mayor gave instruction to Section 8 Coordinator to obtain the HUD-approved release and consent forms.
Finding Number	03-III-04	Eligibility Tenant's files did not contain any evidence of the deeds to the property. Proprietor's name mentioned at the property deeds was different from those who were receiving the HAP payment.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		Mayor gave instruction to Section 8 Coordinator to obtain the deeds of the property's owners.
Finding Number	03-III-05	Procurement Standards Missing contracts' clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		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, 2004

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

Finding Number 03-III-06 **Special Test and Provisions**
The waiting list did not contain the required information to assure compliance with selection policies.

CFDA Number 14.871

Questioned Cost None

Auditee Comments Instruction was given to Section 8 Coordinator to revise the waiting list and complete it in accordance to regulation.

Finding Number 03-III-07 **Special Test and Provisions**
Participant's files did not have a unit inspection report.

CFDA Number 14.871

Questioned Cost None

Auditee Comments Instruction was given to Section 8 Coordinator to update participant files with inspection report.

FISCAL YEAR 2002

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

CFDA Number 14.288

Questioned Cost None

Auditee Comments See Finding Number 03-III-01.

Finding Number 02-III-03 **Eligibility**
HUD- approved release and consent forms submitted by the family.

CFDA Number 14.871

Questioned Cost None

Auditee Comments See Finding Number 03-III-02.

Finding Number 02-III-05 **Eligibility**
Tenant's files did not contain any evidence of the deeds to the property.

CFDA Number 14.871

Questioned Cost None

Auditee Comments See Finding Number 03-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, 2004

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

Finding Number	02-III-07	Procurement Standards Missing contracts' clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		See Finding Number 03-III-05.
Finding Number	02-III-09	Special Test and Provisions Missing initial (preliminary) unit inspection.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		Instructions were given to Federal Program Director to update participant files with initial inspection report.
Finding Number	02-III-10	Special Test and Provisions The waiting list did not contain the required information to assure compliance with selection policies.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		See Finding Number 03-III-06.
Finding Number	02-III-11	Special Test and Provisions No evidence of the determination of reasonableness of rent payment.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		Instruction was given to Section 8 Coordinator to document the determination of rent payment.
Finding Number	02-III-12	Special Test and Provisions Participant's files did not have a unit inspection report.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		See Finding Number 03-III-07.

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, 2004

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

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 03-III-01.
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 03-III-02.
Finding Number	01-III-11	Procurement Standards Missing contracts' clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		See Finding Number 03-III-04.
Finding Number	01-III-16	Special Test and Provisions Participant's files did not have a unit inspection report.
CFDA Number	14.855-14.857	
Questioned Cost	None	
Auditee Comments		See Finding Number 03-III-07.

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, 2004

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

Finding Number 01-III-17 **Special Test and Provisions**
The waiting list did not contain the required information to assure compliance with selection policies.

CFDA Number 14.855-14.857

Questioned Cost None

Auditee Comments See Finding Number 03-III-06.

Finding Number 01-III-19 **Special Test and Provisions**
Participant files did not have the initial (preliminary) unit inspection.

CFDA Number 14.228 ✓

Questioned Cost None

Auditee Comments See Finding Number 02-III-09.

FISCAL YEAR 2000

Finding Number 00-III-05 **Allowed Cost – Cost Principles**
Municipality did not maintain adequate control over the record keeping of documents that justify the disbursement.

CFDA Number 83.544

Questioned Cost \$31,800

Auditee Comments Pending of final determination of questioned costs.

Finding Number 00-III-08 **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 03-III-01.

Finding Number 00-III-09 **Eligibility Test**
HUD- approved release and consent forms submitted by the family.

CFDA Number 14.855-14.857

Questioned Cost None

Auditee Comments See Finding Number 03-III-02.

**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, 2004

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

Finding Number 00-III-10 **Procurement Standards**
Missing contracts' clauses.

CFDA Number 14.228 ✓

Questioned Cost None

Auditee Comments See Finding Number 03-III-04.

Finding Number 00-III-13 **Special Test and Provisions**
The waiting list did not contain the required information to assure compliance with selection policies.

CFDA Number 14.855-14.857

Questioned Cost None

Auditee Comments See Finding Number 03-III-06.

Finding Number 00-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 03-III-07.

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 03-III-01.

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

CFDA Number 14.228

Questioned Cost None

Auditee Comments See Finding Number 03-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, 2004

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

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DIMISION REGISTARACION
E INTERVENCION